No. 04-1329

Title: Illinois Tool Works Inc., et al., Petitioners
v.
Independent Ink, Inc.

Docketed: April 5, 2005

Lower Ct: United States Court of Appeals for the Federal Circuit

Case Nos.: (04-1196)

Decision Date: January 25, 2005

Questions Presented

~~Date~~	~~~~~~~~Proceedings and Orders~~~~~~~~~~~~~~~~~~~~~~~~
Apr 4 2005	Petition for a writ of certiorari filed. (Response due May 5, 2005)
May 4 2005	Motion for leave to file amicus brief filed by American Intellectual Property Law Association.
May 4 2005	Brief of respondent Independent Ink, Inc. in opposition filed.
May 5 2005	Motion for leave to file amicus brief filed by American Bar Association.
May 5 2005	Motion for leave to file amicus brief filed by Pfizer Inc.
May 5 2005	Motion for leave to file amicus brief filed by Intellectual Property Owners Association.
May 17 2005	DISTRIBUTED for Conference of June 2, 2005.
May 17 2005	Reply of petitioners Illinois Tool Works Inc. and Trident, Inc. filed. (Distributed)
May 31 2005	DISTRIBUTED for Conference of June 16, 2005.
Jun 9 2005	Supplemental brief of petitioners Illinois Tool Works Inc., et al. filed. (Distributed)
Jun 20 2005	Petition GRANTED.
Jun 20 2005	Motion for leave to file amicus brief filed by American Bar Association GRANTED.
Jun 20 2005	Motion for leave to file amicus brief filed by American Intellectual Property Law Association GRANTED.
Jun 20 2005	Motion for leave to file amicus brief filed by Pfizer Inc. GRANTED.
Jun 20 2005	Motion for leave to file amicus brief filed by Intellectual Property Owners Association GRANTED.
Jul 25 2005	SET FOR ARGUMENT on November 29, 2005.
Jul 26 2005	Brief amicus curiae of Intellectual Property Law Association of Chicago filed.
Aug 4 2005	Brief amicus curiae of United States filed.
Aug 4 2005	Joint appendix filed. (Jt appendix in three volumes).
Aug 4 2005	Brief of petitioners Illinois Tool Works Inc., et al. filed.
Aug 4 2005	Brief amicus curiae of American Bar Association filed.

Aug 4 2005	Brief amicus curiae of Verizon Communications filed. (Distributed)
Aug 4 2005	Brief amicus curiae of New York Intellectual Property Law Association filed. (Distributed)
Aug 4 2005	Brief amicus curiae of Houston Intellection Property Law Association filed. (Distributed)
Aug 4 2005	Brief amicus curiae of Intellectual Property Owners Association filed. (Distributed)
Aug 4 2005	Brief amicus curiae of American Intellectual Property Law Association filed. (Distributed)
Aug 4 2005	Brief amicus curiae of Bar Association of the District of Columbia - Patent Trademark & Copyright Section filed. (Distributed)
Aug 4 2005	Brief amicus curiae of Washington Legal Foundation filed. (Distributed)
Aug 4 2005	Motion for leave to file amici brief filed by Motion Picture Association of America, Inc. (Distributed)
Aug 5 2005	CIRCULATED.
Aug 10 2005	Extension of time within which to file respondent's brief on the merits to and including September 28, 2005.
Sep 2 2005	Motion for leave to file amici brief filed by Motion Picture Association of America, Inc., et al. GRANTED.
Sep 27 2005	Brief amici curiae of National Association of Theatre Owners and Video Software Dealers Association filed. (Distributed)
Sep 28 2005	Brief amici curiae of Barry Nalebuff, Ian Ayres, and Lawrence Sullivan filed. (Distributed)
Sep 28 2005	Brief amicus curiae of F.M. Scherer filed. (Distributed)
Sep 28 2005	Brief amici curiae of District of Columbia, et al. filed. (Distributed)
Sep 28 2005	Brief of respondent Independent Ink, Inc. filed. (Distributed)
Sep 28 2005	Brief amici curiae of International Imaging Technology Council, et al. filed. (Distributed)
Sep 28 2005	Brief amici curiae of AARP, et al. filed. (Distributed)
Sep 28 2005	Brief amici curiae of American Antitrust Institute, et al. filed. (Distributed)
Oct 6 2005	Motion of the Solicitor General for leave to participate in oral argument as amicus curiae and for divided argument filed.
Oct 17 2005	Motion of the Solicitor General for leave to participate in oral argument as amicus curiae and for divided argument GRANTED.
Nov 2 2005	Reply of petitioners Illinois Tool Works Inc., et al. filed. (Distributed)
Nov 3 2005	Record received from U.S.C.A. for Federal Circuit. (2 expandable folders)
Nov 29 2005	Argued. For petitioners: Andrew J. Pincus, Washington, D.C.; and Thomas G. Hungar, Deputy Solicitor General, Department of Justice, Washington, D.C. (for United States, as amicus curiae.) For respondent: Kathleen M. Sullivan, Redwood Shores, Cal.
Dec 2 2005	Record received from U.S.D.C. Central Dist. of California. (4 boxes)

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No. 04-1329

IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.,
Petitioners,

v.

INDEPENDENT INK, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether, in an action under Section 1 of the Sherman Act, 15 U.S.C. § 1, alleging that the defendant engaged in unlawful tying by conditioning a patent license on the licensee's purchase of a non-patented good, the plaintiff must prove as part of its affirmative case that the defendant possessed market power in the relevant market for the tying product, or market power instead is presumed based solely on the existence of the patent on the tying product.

RULE 29.6 STATEMENT AND PARTIES TO THE PROCEEDING

Pursuant to this Court's Rule 29.6, petitioners state that Trident, Inc. was acquired by Illinois Tool Works Inc. on February 17, 1999. Thereafter, Trident, Inc. became a division of ITW, and is no longer a separate corporate entity. Illinois Tool Works Inc. is a publicly held corporation.

The parties to the proceeding in the court of appeals were Illinois Tool Works Inc., Trident, Inc., and Independent Ink, Inc.

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PETITION FOR A WRIT OF CERTIORARI

Illinois Tool Works Inc. ("ITW") and Trident, Inc. ("Trident") respectfully petition the Court for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a-19a) is reported at 396 F.3d 1342. The order of the district court granting petitioners' motion for summary judgment on the antitrust claims (App., *infra*, 20a-56a) is reported at 210 F. Supp. 2d 1155. The order of the district court entering final judgment (App., *infra*, 57a) is unreported.

JURISDICTION

The judgment of the court of appeals was entered on January 25, 2005. The jurisdiction of this Court rests on 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

Section 1 of the Sherman Act (15 U.S.C. § 1) provides in pertinent part: "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce * * * is declared to be illegal."

STATEMENT

A plaintiff alleging that a defendant has engaged in tying in violation of Section 1 of the Sherman Act (15 U.S.C. § 1) must prove that the defendant exercised "'appreciable economic power' in the tying product market." *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 462 (1992) (citation omitted). In *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), the Court stated that "[t]he requisite economic power is presumed when the tying product is patented or copyrighted." 371 U.S. at 45-46 (citing *International Salt Co.*

v. United States, 332 U.S. 392 (1947), and *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948)).

The question presented in this case is whether the Court should reconsider, and overturn, the presumption announced in *Loew's*. The market power presumption is sharply inconsistent with the economic reasoning underlying the Court's contemporary tying decisions. The federal antitrust enforcement agencies and the overwhelming weight of scholarly opinion have repudiated *Loew's* and *International Salt*.

Indeed, the court below recognized that the presumption "has been subject to heavy criticism," including by Members of this Court, but concluded that "[e]ven where a Supreme Court precedent contains many 'infirmities' and rests upon 'wobbly, moth-eaten foundations,' it remains the 'Court's prerogative alone to overrule one of its own precedents.'" App., *infra*, 13a-14a (citing *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997)). The Court should grant review to address this important issue that it alone among the federal courts has the power to resolve.

A. Trident's Business

ITW's Trident division designs, manufactures and markets printing systems made up of industrial piezoelectric impulse ink jet printheads and inks. It sells the systems to original equipment manufacturers ("OEMs") that incorporate them into printers for industrial applications — for example, bar coding and other carton labeling. Those printers, in turn, form a small part of the packaging assembly lines that the OEMs sell to their customers.

Trident is the exclusive licensee under a portfolio of patents covering piezoelectric printing technology. Even so, Trident competes with at least two other firms, Markem and Xaar, that also have developed their own printhead systems capable of printing barcodes on packaging material. App., *infra*, 22a. In addition, all three manufacturers face competi-

tion from the older but still viable method of attaching barcodes to packages with pre-printed labels. *Ibid.*

Trident holds the patent involved in this litigation, U.S. Patent No. 5,343,226 ("the '226 patent"), and other related patents and patent applications, on the connection between the printhead and the bottle containing the printer ink. Trident licenses its OEM customers under the '226 patent and its other related patents to "'manufacture, use and sell equipment employing and including ink jet printing devices supplied by Trident when used in combination with ink and ink supply systems supplied by Trident.'" *Id.* at 21a. Pursuant to this license requirement, the OEM customers buy the Trident inks, in patented single-use containers, along with the printheads for which they were designed and incorporate them into the units they sell to their end-user customers. The end-users buy ink refills from the OEMs, subject to a single-use license under the '226 patent. The single-use license prohibits refilling the containers. *Ibid.*

However, the licenses to the OEMs do not bind end-users, and neither the '226 patent nor the single-use license has prevented end-users from obtaining ink and containers from third-party manufacturers. Several firms have sought to capitalize on Trident's investments in innovation, either by selling ink in their own containers, despite the '226 patent, or by refilling the end-users' Trident containers, despite the single-use license. See *id.* at 21a-22a. One such firm is respondent Independent Ink, Inc. ("Independent"). *Id.* at 21a.

B. The District Court Decision

On December 31, 1997, Trident filed an infringement action against Independent in the United States District Court for the Southern District of Illinois based upon Independent's refilling of Trident's patented single-use ink containers with its own ink. The suit, which Trident brought against four defendants in all, was dismissed as to Independent and one other defendant for lack of personal jurisdiction. See *Trident,*

Inc. v. Applied Techs. Group, Inc., No. 3:97-cv-01047-GPM (S.D. Ill. Dec. 15, 1998).

Independent concurrently commenced this action against Trident in the United States District Court for the Central District of California, seeking a declaratory judgment of non-infringement and invalidity. Independent later added several other claims, including federal and state antitrust law claims.[1] In its Fourth Amended Complaint, Independent's federal antitrust claim alleged "monopolization, conspiracy to restrain trade, conspiracy to monopolize and attempted monopolization," evidently in violation of Sections 1 and 2 of the Sherman Act (15 U.S.C. §§ 1 & 2), based on, among other alleged conduct, the tying of the patented printheads and the ink.[2] Trident and ITW (which had been added as a defendant after it purchased Trident) moved for summary judgment on both the federal and state antitrust claims; Independent moved for summary judgment only as to its Section 1 theory.

Independent contended that Trident and ITW "necessarily ha[d] market power in the market for the tying product as a matter of law solely by virtue of the patent on their printhead system." App., *infra*, at 23a. At the same time, though, Independent acknowledged that "'the mere fact of having a patent does not create market power vis-à-vis the products with which the patented product competes.'" *Ibid.* (quoting Plaintiff's Reply Brief at 4). Independent's summary judgment briefs did not resolve this fundamental incongruity: they "d[id] not discuss the products at issue, their substitutes, or

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[1] Independent's non-antitrust claims were state law claims for unfair competition, fraud, and negligent and intentional interference with prospective business advantage. The district court's jurisdiction was based on 28 U.S.C. § 1332(a)(1), 28 U.S.C. § 1337(a), and 28 U.S.C. § 1338(a).

[2] Independent also included a claim under California state antitrust law. See App., *infra*, 38a n.13.

the relevant markets." *Id.* at 24a. Indeed, Independent itself stated that its expert "'did not perform an antitrust analysis at all.'" *Ibid.* (quoting Plaintiff's Response to Defendants' Statement of Uncontroverted Facts at ¶ 10).

The district court denied Independent's summary judgment motion, and granted summary judgment for Trident on both claims. App., *infra*, at 38a, 49a. The court found that Independent had "proffer[ed] no evidence that would establish Defendants' market power in the as yet undefined market for the tying product." *Id.* at 49a.

The district court rejected Independent's contention that Trident's market power was presumed by virtue of its patent. "The weight of authority," the court observed, "is to the contrary," citing recent cases that did not apply the *International Salt-Loew's* presumption and noting the statement of the Department of Justice and Federal Trade Commission that, in analyzing patent-based tying, they "'will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner.'" *Id.* at 30a-33a (quoting United States Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property*, § 5.3 (1995) (other citations omitted)).

The district court distinguished *International Salt* and *Loew's*, finding that "[t]he Court's language [in those cases] concerning presumptions of market power based upon patents arose at a time when genuine proof of power in the market for the tying product was not required"; in contrast, the court reasoned, "in [*Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2 (1984)], the Court began demanding real proof of such market power." App., *infra*, 34a-35a n.10 (citing 10 P. Areeda & H. Hovenkamp, *Antitrust Law* ¶ 1737a (1996)). Concluding that Independent had produced "no evidence from which a reasonable trier of fact could define the relevant product and geographic markets," and had failed to "proffer any evidence that Defendants possess market power

by virtue of their market share or that the market for the tying product contains barriers to entry," the court entered summary judgment for ITW and Trident on the Section 1 theory. App., *infra*, 49a.[3]

The district court also granted summary judgment for ITW and Trident on Independent's Section 2 theory. The court found that Independent's "proposed market definition was derived not from economic analysis of cross-elasticity of supply and cross-elasticity of demand, but rather from a report prepared by [Independent's] vice president in a few hours." *Id.* at 50a-51a. In fact, the court's review of the record revealed "numerous actual and potential suppliers of ink for Trident's system." *Id.* at 52a. Similarly, Independent had "fail[ed] to proffer evidence or analysis concerning the relevant geographic market." *Ibid.* Without evidence to support relevant product and geographic markets, Independent could not establish either that petitioners possessed monopoly power in a relevant market, or that there existed a dangerous probability of achieving such monopoly power. *Id.* at 53a, 56a. Finally, the court held that Independent had failed to "proffer any evidence of a conspiracy to monopolize any defined market." *Id.* at 56a. Accordingly, Independent's theories of monopolization, attempted monopolization and conspiracy to monopolize all failed.

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[3] Because the state law antitrust claim was "predicated upon the same facts" as the Sherman Act claim, and Independent did "not address [the state law] claims independently," the district court disposed of that state law claim together with the Sherman Act theories. App., *infra*, at 38a n.13. The court of appeals did not address the state law antitrust claim.

The parties subsequently settled the non-antitrust claims, and the district court entered final judgment for petitioners on the antitrust claims. App., *infra*, 57a.

C. The Federal Circuit's Decision

The court of appeals reversed the summary judgment in favor of Trident and ITW on the Section 1 theory. Relying on *International Salt* and *Loew's*, the Federal Circuit held that "patent and copyright tying, unlike other tying cases, do not require an affirmative demonstration of market power. Rather, *International Salt* and *Loew's* make clear that the necessary market power to establish a section 1 violation is presumed." App., *infra*, at 9a. The court of appeals refused petitioners' invitation to hold that *International Salt* and *Loew's* are no longer good law. The court recognized that the two cases have "been subject to heavy criticism" (*id.* at 13a) and that [t]he time may have come to abandon the doctrine" (*id.* at 14a) but deferred to their "continued validity * * * as binding authority" (*id.* at 9a), noting that "it remains the '[Supreme] Court's prerogative alone to overrule one of its precedents'" (*id.* at 14a (quoting *State Oil Co.*, 522 U.S. at 20)).

The court of appeals went on to hold that "a patent presumptively defines the relevant market as the nationwide market for the patented product itself, and creates a presumption of power within this market." App., *infra*, 15a. Determining that petitioners' evidence of competition from the two rival printhead systems and barcode labeling had not overcome the market power presumption, the court reversed summary judgment for petitioners on Independent's Section 1 theory and remanded the case "to permit [petitioners] an opportunity to supplement the summary judgment record with evidence that may rebut the presumption." *Id.* at 17a.

With respect to the Section 2 theory, however, the court of appeals affirmed the district court's grant of summary judgment for ITW and Trident. "In section 2 cases," the court stated, "the plaintiff bears the burden of defining the market and proving defendant's power in that market." *Id.* at 18a. It upheld the district court's determination that "plaintiff makes

only the conclusory allegation of a geographic market without supporting economic evidence" and held that "[s]uch conclusory statements are not sufficient to define a relevant market." *Ibid.* Because Independent failed to carry its burden, the district court properly granted summary judgment for petitioners.

REASONS FOR GRANTING THE PETITION

This Court approaches reconsideration of its decisions "with the utmost caution." *State Oil Co.*, 522 U.S. at 20. In the antitrust context, however, the Court has explained that "there is a competing interest [to *stare decisis*], well represented in th[e] Court's decisions, in recognizing and adapting to changed circumstances and the lessons of accumulated experience. * * * Accordingly, th[e] Court has reconsidered its decisions construing the Sherman Act when the theoretical underpinnings of those decisions are called into serious question." *Id.* at 20, 21 (overruling *Albrecht v. Herald Co.*, 390 U.S. 145 (1968)); see also *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984) (overruling *Kiefer-Stewart Co. v. Joseph E. Seagram & Sons, Inc.*, 340 U.S. 211 (1951)); *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36 (1977) (overruling *United States v. Arnold, Schwinn & Co.*, 388 U.S. 367 (1967)).

Reconsideration of this Court's decisions in *Loew's* and *International Salt* is warranted — indeed, necessary — because the very circumstances that the Court cited as the reasons for reconsidering these other antitrust precedents are present here as well. The market power presumption was transplanted into antitrust law from a line of patent cases on the basis of scant analysis; it is wholly inconsistent with the Court's modern antitrust jurisprudence; it has been rejected by the federal antitrust enforcement agencies; and it is the subject of unusually unanimous scholarly criticism.

These flaws in *International Salt* and *Loew's* have been recognized by Members of this Court. See *Jefferson Parish*,

466 U.S. at 37-38 n.7 (O'Connor, J., joined by Burger, C.J., and Powell and Rehnquist, JJ., concurring in the judgment); see also *Data Gen. Corp. v. Digidyne Corp.*, 473 U.S. 908 (1985) (White, J., joined by Blackmun, J.).

Review also is warranted to resolve the disarray among the lower courts with respect to this frequently recurring issue. The foundation on which the presumption rests has been eroded so deeply by this Court's modern antitrust jurisprudence that there is a square conflict among the courts of appeals with respect to the continuing vitality of *International Salt* and *Loew's*. In addition, numerous district courts have declined to follow those decisions.

Finally, the presumption imposes real costs on our economy. It encourages the filing of meritless lawsuits by plaintiffs hoping that the presumption will enable their claims to survive motions to dismiss and for summary judgment and, therefore, exact settlement payments from defendants facing the expense, and treble damages risk, of an antitrust trial. These burdens, in turn, may dissuade firms from investing in the development of intellectual property in the first place, thereby causing substantial harm to our economy in view of the increasingly important role of intellectual property as a driver of economic growth. This Court should intervene to eliminate this unjustified burden on intellectual property creation.

I. THE COURT SHOULD RECONSIDER *INTERNATIONAL SALT* AND *LOEW'S*.

"A tying arrangement is an 'agreement by a party to sell one product but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier.'" *Eastman Kodak Co.*, 504 U.S. at 461 (quoting *Northern Pac. Ry. Co. v. United States*, 356 U.S. 1, 5-6 (1958)). Tying arrangements violate Section 1 of the Sherman Act (15 U.S.C.

§ 1) "if the seller has 'appreciable economic power' in the tying product market and if the arrangement affects a substantial volume of commerce in the tied market.'" *Eastman Kodak Co.*, 504 U.S. at 462 (citation omitted).

The Court has explained that "the essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms." *Jefferson Parish*, 466 U.S. at 12. "Accordingly, [the Court has] condemned tying arrangements when the seller has some special ability — usually called 'market power' — to force a purchaser to do something that he would not do in a competitive market. When 'forcing' occurs, [the Court's] cases have found the tying arrangement to be unlawful." *Id.* at 13-14 (footnote and citations omitted).

In *Loew's*, the Court stated that "[t]he requisite economic power is presumed when the tying product is patented or copyrighted." 371 U.S. at 45-46 (1962) (citing *International Salt* and *Paramount Pictures*). Although the Court has not applied that principle in the more than forty-two years since *Loew's* was decided, it has repeated it several times in dicta.

This presumption simply makes no sense in the context of the Court's present-day tying jurisprudence. "Legal presumptions that rest on formalistic distinctions rather than actual market realities are generally disfavored in antitrust law. * * * In determining the existence of market power * * * this Court has examined closely the economic reality of the market at issue." *Eastman Kodak Co.*, 504 U.S. at 466-467 (footnote omitted). The presumption at issue here is the very embodiment of formalism over economic substance.

The bizarre results that flow from the presumption are well illustrated by this case. The court of appeals upheld summary judgment in petitioners' favor on the Section 2 theory because Independent made only conclusory allegations with respect to geographic market. App., *infra*, 18a. But the court of appeals rejected the district court's determination that the very same flaws doomed the Section 1 theory, holding that the presumption allowed that theory to survive summary judgment. *Id.* at 17a. The plaintiff was allowed to rely on the presumption to establish what it clearly could not prove — that Trident possessed market power in a relevant market.

Because this Court is the only court that can resolve the question regarding the appropriate legal rule, the Court should grant review to reconsider *International Salt* and *Loew's*.

A. The Market Power Presumption Was Not The Product Of "In-Depth" Antitrust Analysis By This Court.

In *Copperweld*, the Court explained that one reason for reconsidering the intra-enterprise conspiracy doctrine was that the Court had never before considered "the merits of the * * * doctrine in depth"; the doctrine had arisen "from a far narrower rule"; and, although the Court had "expressed approval of the doctrine on a number of occasions," that statement "was in all but perhaps one instance unnecessary to the result." 467 U.S. at 760. The presumption at issue here has a similarly undistinguished pedigree.

Most importantly, the presumption is not the product of a determination by this Court that the licensor of a patented or copyrighted product always, or nearly always, possesses market power as that term is generally understood in antitrust analysis — "the potential for genuine adverse effects on competition." *FTC v. Indiana Fed'n of Dentists*, 476 U.S. 447, 460 (1986).

In *International Salt*, for example, the defendant refused to lease its salt-dispensing machines unless the lessee also

agreed to purchase from the defendant the salt used in the machines. The Court found an unlawful tie without conducting any market power analysis, subsequently explaining that "the defendant in *International Salt* offered to prove that competitive salt machines were readily available which were satisfactory substitutes for its machines (a fact the Government did not controvert), but the Court regarded such proof as irrelevant." *Northern Pac. Ry. Co.*, 356 U.S. at 10 n.8; see also *Standard Oil Co. of Cal. v. United States*, 337 U.S. 293, 305 (1949) ("[i]t was not established that equivalent machines were unobtainable, it was not indicated what proportion of the business of supplying such machines was controlled by defendant, and it was deemed irrelevant that there was no evidence as to the actual effect of the tying clauses upon competition").

The roots of the presumption lie in judicial concern about a patent owner's ability to assert rights in excess of those conveyed by the patent itself. As the *Loew's* Court explained, the principle "grew out of a long line of patent cases which had eventuated in the doctrine that a patentee who utilized tying arrangements would be denied all relief against infringements of his patent. These cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products." 371 U.S. at 46 (citations omitted).

The Court then set forth its rationale for extending these cases into the antitrust context:

> Since one of the objectives of the patent laws is to reward uniqueness, the principle of these cases was carried over into antitrust law on the theory that the existence of a valid patent on the tying product, without more, establishes a distinctiveness sufficient to conclude that any tying arrangement involving the patented product would have anticompetitive consequences.

371 U.S. at 46; see also *Paramount Pictures*, 334 U.S. at 158 (block licensing of motion pictures is unlawful under the antitrust laws because it "add[s] to the monopoly of the copyright in violation of the principle of the patent cases involving tying clauses") (footnote omitted).

Thus, the market power presumption does not reflect a determination about the relationship between intellectual property rights and market power. Rather, it is the product of a judicial judgment about the appropriate limits on intellectual property rights, imported into antitrust law based on the questionable "theory" that the "uniqueness" that patents are meant to reward equates to "distinctiveness sufficient to" create market power. *Loew's*, 371 U.S. at 46; see also *Jefferson Parish*, 466 U.S. at 37-38 n.7 (O'Connor, J., concurring in the judgment) (explaining that in *Paramount Pictures* "the Court did not analyze the arrangement with the schema of tying cases" but rather "borrowed the patent law principle of 'patent misuse'").

Although the Court has repeated the *Loew's* formulation of the presumption in several subsequent opinions addressing tying claims, none of those cases turned on application of the presumption because they did not involve a tying product that was patented or copyrighted. See *Jefferson Parish*, 466 U.S. at 16; *United States Steel Corp. v. Fortner Enters., Inc.*, 429 U.S. 610, 619 (1977) ("*Fortner II*"); *Fortner Enters., Inc. v. United States Steel Corp.*, 394 U.S. 495, 505 n.2 (1969) ("*Fortner I*"). Thus, as in *Copperweld*, the Court has not had any occasion to "explore[] or analyze[] in detail the justifications for such a rule; the [presumption] has played only a relatively minor role in the Court's Sherman Act holdings." 467 U.S. at 766.[4]

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[4] Congress overturned the Court's judgment about the appropriate limits on intellectual property rights in 1988 when it enacted a statute requiring proof of actual market power to establish a patent misuse defense based on patent tying. Act of Nov. 19, 1988, Pub.

B. The Market Power Presumption Is Wholly Inconsistent With The Court's Modern Tying Jurisprudence.

If *International Salt* and *Loew's* had never been decided and the Court were confronted for the first time today with the contention that market power should be presumed when the tying product is copyrighted or patented, it is inconceivable that the Court would adopt that approach. Such a presumption is sharply out of step with the Court's explanation in more recent decisions that the role of the market power requirement in tying cases is to restrict antitrust liability to those situations in which anticompetitive forcing is likely to occur.

In *Fortner II*, 429 U.S. at 620, the Court described the critical inquiry with respect to market power as "whether the seller has the power, within the market for the tying product, to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market." See also *id.* at 620 n.13 ("'market power in the

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L. No. 100-703, § 201, 102 Stat. 4674, 4676 (codified at 35 U.S.C. § 271(d)(5)).

The fact that Congress considered amending the antitrust laws to overturn *International Salt* and *Loew's* but failed to do so does not indicate congressional endorsement of those decisions. "[I]n the absence of any persuasive circumstances evidencing a clear design that congressional inaction be taken as acceptance of [*International Salt* and *Loew's*], the mere silence of Congress is not a sufficient reason for refusing to reconsider the decision[s]." *Boys Mkts., Inc. v. Retail Clerks Union, Local 770*, 398 U.S. 235, 242 (1970); see also *State Oil Co.*, 522 U.S. at 19 ("[i]n the context of this case, we infer little meaning from the fact that Congress has not reacted legislatively to [the Court's decisions]"); 134 Cong. Rec. S17,148 (Oct. 21, 1988) (statement of Sen. Leahy) (explaining that "the House did not have time to consider and approve th[e] measure" eliminating the presumption in antitrust tying cases).

sense of power over price must * * * exist. If the price could have been raised but the tie-in was demanded in lieu of the higher price, then — and presumably only then — would the requisite economic power exist'") (quoting K. Dam, Fortner Enterprises v. United States Steel: *"Neither a Borrower Nor a Lender Be,"* 1969 Sup. Ct. Rev. 16, 25-26).

Jefferson Parish, decided seven years later, stated that the defendant's market power must be "significant," and that the mere fact that "prices can be raised above the levels that would be charged in a competitive market" is not sufficient to establish "the kind of market power that justifies condemnation of tying." 466 U.S. at 26, 27 & n.46; see also *Grappone, Inc. v. Subaru of New England, Inc.*, 858 F.2d 792, 796 (1st Cir. 1988) (Breyer, J.) (*Jefferson Parish* "makes clear that by its requirement of 'market power' it means *significant* market power — more than the mere ability to raise price only slightly, or only on occasion, or only to a few of a seller's many customers") (emphasis in original).

Most recently, in *Eastman Kodak Co.*, the Court referred to the requirement of "appreciable economic power in the tying market," and defined "market power" as "'the ability of a single seller to raise price and restrict output.' The existence of such power ordinarily is inferred from the seller's possession of a predominant share of the market." 504 U.S. at 464 (citation omitted).

The Court has thus applied a stringent market power standard in its modern tying cases. 10 P. Areeda et al., *Antitrust Law*, ¶ 1733a, at 13 (2d ed. 2004) (the market power requirement "was not taken seriously until the late 1970s. Beginning with *Fortner II* and continuing in *Jefferson Parish* and *Kodak*, the Supreme Court has insisted that the plaintiff prove such power") (footnotes omitted). As we have explained, however (see pages 11-13, *supra*), the market power presumption was developed in earlier cases in which the

Court held that it was *unnecessary* to evaluate the seller's actual ability to affect price in the tying market.

The market power presumption is for that reason completely inconsistent with the Court's present-day market power requirement. Accord *Jefferson Parish*, 466 U.S. at 37 n.7 (O'Connor, J., joined by Burger, C.J., and Powell and Rehnquist, JJ., concurring in the judgment) ("[a] common misconception has been that a patent or copyright * * * suffices to demonstrate market power"; while this factor might "help to give market power to a seller, it is also possible that a seller [in this situation] will have no market power: for example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product"); 10 Areeda et al., *supra*, ¶ 1737a, at 79 ("there is no economic basis for inferring any amount of market power from the mere fact that the defendant holds a valid patent, copyright, trademark, or other intellectual property right") (footnote omitted).[5]

The presumption also is inconsistent with the Court's analysis in cases not involving intellectual property tying. As long ago as *Northern Pacific*, this Court noted that "it is common knowledge that a patent does not always confer a monopoly over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the patent privileges is slight." 356 U.S. at 10 n.8; see also *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177-78 (1965) (noting in the context of an attempted monopolization

[5] See also S. Vermont, "The Economics of Patent Litigation," *in From Ideas to Assets: Investing Wisely in Intellectual Property* 327, 332 (B. Berman, ed. 2002) ("[A]t any given time, over about 95 percent of patents are unlicensed and over about 97 percent are generating no royalties"); W. Landes & R. Posner, *The Economic Structure of Intellectual Property Law* 320 n.52 (2003) (quoting Vermont's analysis).

case that "[i]t may be that the device [that was the subject of the patent claim] * * * does not comprise a relevant market. There may be effective substitutes for the device which do not infringe the patent").

There is no rational justification for an exception to this rule for tying cases. Nothing about tying changes the degree of power that inheres in an intellectual property right: if a patent owner lacks market power when it engages in exclusive dealing, there is no reason to conclude that market power has sprung up when it ties. "With the views underlying [*International Salt* and *Loew's*] eroded by this Court's precedent, there is not much of [those decisions] to salvage." *State Oil Co.*, 522 U.S. at 21.

C. The Federal Antitrust Enforcement Agencies Have Rejected The Market Power Presumption.

In determining whether it is appropriate to reconsider an antitrust precedent, the Court also has assessed the role played by that precedent in the federal government's enforcement activities. *Copperweld*, 467 U.S. at 777. This factor, too, weighs heavily in favor of reconsideration.

The federal antitrust enforcement agencies "will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner," even in tying cases. United States Department of Justice and the Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* §§ 2.2 & 5.3 (1995). "Although the intellectual property right confers the power to exclude with respect to the *specific* product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power." *Id.* § 2.2 (emphasis in original).[6]

[6] Commentators have observed that the agencies' position "effectively repudiate[s] the old approach" reflected in *International Salt* and *Loew's*. W. Tom & J. Newberg, *Antitrust and Intellectual*

The leadership of the Antitrust Division has reiterated this same point more recently in public speeches. Assistant Attorney General Pate stated that "[b]ecause patents do not necessarily confer market power, there is no presumption that tying arrangements involving patented products necessarily are illegal." R. H. Pate, "Antitrust and Intellectual Property," at 10 (Jan. 24, 2003) (citation omitted), *available at* http://www.usdoj.gov/atr/public/speeches/200701.pdf. As he explained, "without a showing that the patent actually conveys market power, antitrust concerns do not arise." *Id.* at 7.

Deputy Assistant Attorney General Delrahim further explained the Antitrust Division's view:

> While an intellectual property right does confer the right to exclude others with respect to the work or invention within the scope of that right, it does not immediately confer upon the holder the ability to seek a monopoly rent. Close substitutes in the marketplace may foreclose the new product or technology from realizing any meaningful return, let alone gaining a monopoly position. In this respect, intellectual property assets are comparable to other kinds of property, and therefore, the Department applies the same general antitrust principles when assessing the market power held by an intellectual property owner as it would if the asset at issue were any other form of tangible or intangible property.

Property: From Separate Spheres to Unified Field, 66 Antitrust L.J. 167, 173-74 (1997); see also T. Hayslett III, *1995 Antitrust Guidelines for the Licensing of Intellectual Property: Harmonizing the Commercial Use of Legal Monopolies with the Prohibitions of Antitrust Law*, 3 J. Intell. Prop. L. 375, 395 (1996) ("[t]he Guidelines retreat from the historic common law position and specifically embrace the scholars' arguments").

M. Delrahim, "Contemporary Issues at the Intersection of Intellectual Property and Antitrust," at 5-6 (Nov. 10, 2004) (citing *IP Guidelines*; footnote omitted), *available at* http://www.usdoj.gov/atr/public/speeches/206607.pdf.

D. The "Great Weight" Of Scholarly Opinion Is Sharply Critical Of The Market Power Presumption.

The Court also has pointed to the "'great weight' of scholarly criticism" as another factor relevant in determining whether to reconsider a prior decision. *State Oil Co.*, 522 U.S. at 21 (quoting *GTE Sylvania Inc.*, 433 U.S. at 47-48).

There is an overwhelming scholarly consensus that the market power presumption should be abandoned. See, *e.g.*, H. Hovenkamp, M. Janis & M. Lemley, *IP and Antitrust*, § 4.2e6 (2005 Supp.) ("a poorly grounded presumption"); 10 Areeda et al., *supra*, ¶ 1737c, at 82 ("[i]f [*International Salt*] really required power and inferred it from any patent, it erred"); R. Posner, *Antitrust Law* 197-98 (2d ed. 2001) ("[M]ost patents confer too little monopoly power to be a proper object of antitrust concern. Some patents confer no monopoly power at all."); D. Turner, *The Durability, Relevance, and Future of American Antitrust Policy*, 75 Cal. L. Rev. 797, 805 (1987) ("courts mistakenly assume the 'market power' predicate to be met where the tying product is patented or copyrighted or is distinctive from products offered by competitors"); J. Bauer, *A Simplified Approach to Tying Arrangements: A Legal and Economic Analysis*, 33 Vand. L. Rev. 283, 333 n. 179 (1980) ("The harsh mechanical treatment of tie-ins involving patented tying products is difficult to explain except perhaps on historical grounds."); see also K. Dam, *The Economic Underpinnings of Patent Law*, 23 J. Legal Stud. 247, 249-50 (1994) ("[I]t is readily apparent that the right to exclude another from [the grant of a patent] may give no significant market power, even when the patent covers a product that is sold in the market. Indeed, without the

benefit of empirical research, it is entirely plausible to conclude that in the great bulk of instances no significant market power is granted.").[7]

We are not aware of any significant authority on antitrust or intellectual property law who has defended the presumption of market power in patent and copyright tying cases in the last decade. This factor accordingly weighs in favor of review in the present case.

II. SEVERAL MEMBERS OF THIS COURT HAVE QUESTIONED THE MARKET POWER PRESUMPTION.

The substantial flaws in the foundation on which the presumption rests have not gone unnoticed by Members of this Court. To the contrary, on two separate occasions Justices

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[7] See also, *e.g.*, Comments of F. M. Scherer, *The Value of Patents and Other Legally Protected Commercial Rights*, 53 Antitrust L.J. 535, 547 (1985) (discussing how even a rebuttable presumption of market power from a patent or copyright is unwise because "[s]tatistical studies suggest that the vast majority of patents confer very little monopoly power — at least, they are not very profitable") (panel discussion). See generally R. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399, 437 (2003) ("eighty percent to ninety percent of patents never create any monetary return for the patent holder"); J. D. Brinson, *Proof of Economic Power in a Sherman Act Tying Arrangement Case: Should Economic Power Be Presumed When the Tying Product is Patented or Copyrighted?*, 48 La. L. Rev. 29, 66 (1987) ("A copyrighted or patented tying product should not be presumed to give its seller power over price."); R. Pearson, *Tying Arrangements and Antitrust Policy*, 60 Nw. U. L. Rev. 626, 644 (1965) ("If the teaching of *Loew's* is that the requisite market power is to be presumed from this kind of uniqueness or desirability, then there exists, indeed, a slender fulcrum to support the kind of lever we are led to believe is used in tying arrangements. This kind of desirability or uniqueness confers very little market power, or none at all.").

have questioned the *International Salt-Loew's* standard. These views provide strong support for a grant of review to reconsider the presumption in this case.

In *Jefferson Parish*, four Members of the Court pointed to the "common misconception" that a patent or copyright was sufficient to demonstrate market power, explaining that "a patent holder has no market power in any relevant sense if there are close substitutes for the patented product." *Jefferson Parish*, 466 U.S. at 37-38 n.7 (O'Connor, J., joined by Burger, C.J., and Powell and Rehnquist, JJ., concurring in the judgment). They observed that the contrary view stemmed not from the Court's antitrust jurisprudence but rather from "the patent law principle of 'patent misuse.'" *Ibid.*

One year later, two Justices who were in the *Jefferson Parish* majority dissented from the denial of certiorari in a tying case involving, among other issues, "what effect should be given to the existence of a copyright or other legal monopoly in determining market power." *Data Gen. Corp.*, 473 U.S. at 909 (White, J., joined by Blackmun, J.). Labeling the court of appeals' decision "suspect on several grounds" — including its view that "the copyright on the [computer] operating system * * * creat[ed] a presumption of market power" — the Justices stated that review was appropriate because "[t]he reach of the decision in this case is potentially enormous." *Id.* at 908, 909.

III. THE DISARRAY AMONG THE LOWER COURTS WITH RESPECT TO THIS FREQUENTLY RECURRING ISSUE CONFIRMS THE NEED FOR INTERVENTION BY THIS COURT.

When a certiorari petition seeks reconsideration by this Court of one of its prior decisions, the petitioner usually cannot point to a conflict among the lower courts, because "it is th[e] Court's prerogative alone to overrule one of its precedents." *State Oil Co.*, 522 U.S. at 20. The substantial disarray

among the lower courts with respect to the continuing validity of the presumption of market power in patent and copyright tying cases confirms the extent to which *International Salt* and *Loew's* have been eroded by this Court's modern antitrust jurisprudence. Cf. *GTE Sylvania Inc.*, 433 U.S. at 48 n.14 ("many courts 'have struggled to distinguish or limit *Schwinn* in ways that are a tribute to judicial ingenuity'").

As the Federal Circuit recognized (App., *infra*, 13a), there is a conflict among the courts of appeals with respect to the issue. The Ninth and Eleventh Circuits, like the Federal Circuit in the present case, have applied the *International Salt-Loew's* presumption. *MCA Television Ltd. v. Public Interest Corp.*, 171 F.3d 1265, 1278-1279 (11th Cir. 1999); *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336, 1345 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985). Three other circuits have taken the same view, albeit in dictum. See *Southern Pines Chrysler-Plymouth, Inc. v. Chrysler Corp.*, 826 F.2d 1360, 1363 (4th Cir. 1987); *Rosebrough Monument Co. v. Memorial Park Cemetery Ass'n*, 666 F.2d 1130, 1142 (8th Cir. 1981), *cert. denied*, 457 U.S. 1111 (1982); *Spartan Grain & Mill Co. v. Ayers*, 581 F.2d 419, 426 (5th Cir. 1978) (citation omitted), *cert. denied*, 444 U.S. 831 (1979).

The Sixth Circuit reached the opposite conclusion in *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673 (6th Cir. 1986), concluding that — in light of the concurring opinion in *Jefferson Parish* — this Court's statement in *Loew's* was "overbroad and inapposite to the instant case." 806 F.2d at 676. The Seventh Circuit has suggested in dictum that proof of market power is required even as to tying products covered by intellectual property rights, noting that "rivals may create similar items for similar costs." *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665, 673 n.4 (7th Cir. 1985) (Easterbrook, J.), *cert. denied*, 475 U.S. 1129 (1986).

The disarray among the courts of appeals is mirrored in the district courts. A significant number of district courts

have refused to apply the market power presumption, generally concluding that this Court's decisions had been undermined by more recent precedent.[8]

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[8] See, *e.g.*, *Little Caesar Enters., Inc. v. Smith*, 34 F. Supp. 2d 459, 466 n.10 (E.D. Mich. 1998) (granting partial summary judgment on tying claim because, notwithstanding defendant's copyrights, plaintiff had not set forth any evidence that defendant had "significant market power"); *Rockbit Indus. U.S.A., Inc. v. Baker Hughes, Inc.*, 802 F. Supp. 1544, 1549 n.3 (S.D. Tex. 1991) ("recent case law has rejected the presumption of market power from the possession of patents or unique products") (citations omitted); *Allen-Myland, Inc. v. International Bus. Machs. Corp.*, 693 F. Supp. 262, 281 & n.42 (E.D. Pa. 1988) (rejecting argument that patents establish sufficient economic power as a matter of law; following *A.I. Root* and Justice O'Connor's concurrence in *Jefferson Parish*), *rev'd on other grounds*, 33 F.3d 194 (3d Cir. 1994), *cert. denied*, 513 U.S. 1066 (1994); *Telerate Sys., Inc. v. Caro*, 689 F. Supp. 221, 236 (S.D.N.Y. 1988) (holding that software developer failed to establish likelihood of success on tying claim due to inability to show market power (and other reasons), despite existence of copyright and trade secrets; expressly refusing to follow *Digidyne*); *Nobel Scientific Indus., Inc. v. Beckman Instruments, Inc.*, 670 F. Supp. 1313, 1329 (D. Md. 1986) (granting summary judgment against tying claim because, notwithstanding defendants' patents, "there are readily available substitutes, available from many people"), *aff'd*, 831 F.2d 537 (4th Cir. 1987), *cert. denied*, 487 U.S. 1226 (1988); *3 P.M., Inc. v. Basic Four Corp.*, 591 F. Supp. 1350, 1359 (E.D. Mich. 1984) ("the fact that some of B/4's software is copyrighted does not establish that defendants possessed economic power"); *R & G Affiliates, Inc. v. Knoll Int'l, Inc.*, 587 F. Supp. 1395, 1404 (S.D.N.Y. 1984) ("it is not clear that the furniture that is patented actually is sufficiently distinctive to confer the required market power"); see also *Universal Bus. Computing Co. v. Comprehensive Accounting Corp.*, No. 82-C-3028, 1985 WL 1955, at *6 (N.D. Ill. June 25, 1985) (rejecting argument that copyright establishes sufficient market power as a matter of law).

Even among those courts that have applied the market power presumption, moreover, there is — as the Federal Circuit recognized (App., *infra*, 15a) — a disagreement about whether the presumption is rebuttable. The Federal Circuit stated that "[t]he presumption can only be rebutted by expert testimony or other credible economic evidence of the cross-elasticity of demand, the area of effective competition, or other evidence of lack of market power." *Id.* at 16a. The Ninth Circuit placed an even more stringent burden on sellers, holding that proof of "comparable" or "functionally equivalent" substitutes — or even proof that "the defendant's prices * * * were fully competitive" — was insufficient to rebut the presumption (*Digidyne Corp.*, 734 F.2d at 1346).

On the other hand, the Eleventh Circuit appears to assume that the market power presumption is not rebuttable at all. *MCA Television Ltd.*, 171 F.3d at 1276-1279; see also *Grid Sys. Corp. v. Texas Instruments Inc.*, 771 F. Supp. 1033, 1037 n.2 (N.D. Cal. 1991); *Outlet Communications, Inc. v. King World Prods., Inc.*, 685 F. Supp. 1570, 1577 (M.D. Fla. 1988); *Duplan Corp. v. Deering Milliken, Inc.*, 444 F. Supp. 648, 673 (D.S.C. 1977), *aff'd in part, rev'd in part*, 594 F.2d 979 (4th Cir. 1979).

It is not surprising, then, that the Justice Department and the Federal Trade Commission have pronounced the case law "unclear" with respect to the market power issue. *Antitrust Guidelines* § 2.2, at 4 n.10. This Court should grant review to resolve the confusion.

IV. THE CONTINUING VITALITY OF THE MARKET POWER PRESUMPTION IS AN ISSUE OF SUBSTANTIAL PRACTICAL IMPORTANCE.

The decisions of the lower courts just discussed demonstrate the considerable frequency with which this issue recurs. Given the increasing rates at which intellectual property

is being created, courts are likely to confront the issue in an even greater number of cases in the years ahead.[9]

In those cases that are launched by a patent infringement claim or, like this one, a declaratory judgment action regarding patent infringement or validity, the Federal Circuit will have exclusive appellate jurisdiction under 28 U.S.C. §1295(a)(1). See *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 829 (2002). Because the Federal Circuit has indicated that it will look to its own precedent as to whether patent tying violates the antitrust laws, (see App., *infra*, 4a (citing *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1067-68 (Fed. Cir. 1998) (en banc in relevant part), *cert. denied*, 525 U.S. 876 (1998))), its decision in this case will control all antitrust patent tying counterclaims filed in response to patent infringement suits. Thus, this decision, if not reversed, will produce numerous applications of an erroneous legal standard.

The market power presumption also has substantial practical consequences. "[I]ntellectual property-based exports — whether copyrighted music, movies or software, or patent-protected goods such as pharmaceuticals or electronic products — have become this country's number one export. As such, their creation and protection is critical to maintaining a vibrant economy." M. Delrahim, "International Antitrust and Intellectual Property: Challenges on the Road to Convergence," at 1 (May 21, 2004), *available at* http://www.usdoj.gov/atr/public/speeches/205629.pdf.

International Salt and *Loew's* single out intellectual property for a unique, and weighty, burden. To the extent the

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[9] In 2000, for example, the United States Patent and Trademark Office issued over 175,000 patents, compared to only about 66,000 patents twenty years ago. T. Muris, "Competition and Intellectual Property Policy: The Way Ahead" (Nov. 15, 2001), *available at* http://www.ftc.gov/speeches/muris/intellectual.htm.

presumption is irrebuttable (see page 24, *supra*), intellectual property owners may be subject to treble damages liability even though, as a factual matter, they lack the market power necessary to produce the anticompetitive harm that the prohibition against tying is designed to prevent — forcing licensees to purchase an unwanted tied product.

Even if the market power presumption is rebuttable, overcoming it requires a considerable investment by the intellectual property owner, not in further creativity or innovation, but in litigation. According to the Federal Circuit, evidence of competing substitutes for the patent or patented product is not sufficient. App., *infra*, 16a (citation omitted). Rather, "[t]he presumption can only be rebutted by expert testimony or other credible economic evidence of the cross-elasticity of demand, the area of effective competition, or other evidence of lack of market power." *Ibid.*

In other words, to counter even the sketchiest allegation of tying, a defendant must pay for a full-blown antitrust market-definition analysis. Such an analysis, which inevitably entails collection and analysis of massive amounts of data by highly paid economic consultants, is an enormous burden to impose on intellectual property owners who wish to protect their investments in innovation.

Under the court of appeals' analysis, moreover, a defendant is given little guidance as to how to rebut the presumption successfully. Proving a negative is difficult in general, and especially difficult in the complex world of economic analysis.

Finally, the presumption allows, and even encourages, plaintiffs to file meritless lawsuits. By transferring to defendants the plaintiffs' initial burden as to a fundamental element of a tying claim, the presumption increases the chances that deficient claims will survive motions to dismiss and for summary judgment. That in turn improves the prospect of extracting settlement payments from defendants confronted

by the expense, and treble damages risk, of an antitrust trial. In effect, then, the presumption unjustifiably increases the costs of owning, disseminating and enforcing intellectual property. These increased costs ultimately could discourage firms from investing in the development of intellectual property in the first place. Given intellectual property's increasingly important role in our economy, such a disincentive would likely cause substantial long-run harm to our economy, to innovators, manufacturers and consumers alike.

Indeed, as this Court has previously recognized, the "effect" of allowing implausible inferences to require a jury trial "is often to deter procompetitive conduct" (*Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 593 (1986) (citation omitted)), because even the potential of "treble damages liability" is enough "'to inhibit management's exercise of its independent business judgment'" (*Monsanto Co. v. Spray-Rite Serv. Corp.*, 465 U.S. 752, 764 (1984) (internal quotation marks and citation omitted)). Implausible presumptions present equivalent concerns.

* * * * *

In sum, there are powerful reasons for reconsideration of the market power presumption: it is sharply inconsistent with the Court's more recent approach to proof of market power in tying cases; it has been rejected by the federal antitrust agencies and heavily criticized by scholars and Members of this Court; and it singles out intellectual property for a burden that does not extend to any other type of product. This case cleanly presents the question of the presumption's continuing validity; indeed, the Federal Circuit ruled as it did because it felt bound by this Court's decisions. Because it is "th[is]Court's prerogative alone to overrule one of its own precedents" (*State Oil Co.*, 522 U.S. at 20), the Court should grant the petition to resolve this important question.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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APPENDICES

APPENDIX A

United States Court of Appeals,
Federal Circuit.

INDEPENDENT INK, INC., *Plaintiff-Appellant*,

v.

ILLINOIS TOOL WORKS, INC. AND TRIDENT, INC.,
Defendants-Appellees.

No. 04-1196.

Jan. 25, 2005.

Before CLEVENGER, DYK, and PROST, Circuit Judges.

DYK, Circuit Judge.

Independent Ink, Inc. ("Independent") appeals from the judgment of the United States District Court for the Central District of California in this patent tying antitrust action. The district court granted summary judgment on plaintiff Independent's Sherman Act section 1 claim because Independent had failed to produce any evidence of market power over the tying product. *Indep. Ink, Inc. v. Trident, Inc.*, 210 F. Supp. 2d 1155 (C.D. Cal. 2002). We hold that a rebuttable presumption of market power arises from the possession of a patent over a tying product. Because no rebuttal evidence was submitted by the patent holder, we reverse the grant of summary judgment on the Sherman Act section 1 claim and remand for further proceedings. As to Independent's Sherman Act section 2 claim, we affirm the district court's grant of summary judgment.

BACKGROUND

Defendant Trident, Inc. ("Trident") is a wholly-owned subsidiary of defendant Illinois Tool Works, Inc. ("ITW"). Trident is a manufacturer of printheads and holds a patent over its printhead technology. *See* U.S. Patent No. 5,343,226

("the '226 patent"). Printer manufacturers (the "OEMs") use Trident's printhead technology to manufacture printers. The end users of the printers are usually product manufacturers, who use the printers to place bar codes on cartons.

As disclosed by the '226 patent, ink jet devices for printing bar codes consume a large quantity of ink. The small cartridges typical in other ink jet devices are impractical for such applications. But the use of a large supply of ink poses problems for transferring the ink from the container to the printhead. Specifically, one must be able to apply pressure in one direction, forcing ink towards the printhead, without sucking the ink back when that pressure is released. As reflected in the prior art and discussed by the '226 patent, there have been essentially three methods by which this could be done. First, there have been valves that allow release of the pressure without affecting the flow of ink. However, such valves must be sensitive to back pressure while being strong enough to seal the ink, and are difficult to reliably design. Second, there have been devices that pressurize the air space above the ink reservoir. But any increase in pressure in the ink container "will continue to force ink out . . . even after the pressure is removed. . . . [P]uncturing a hole in the container in the air space above the ink . . . to relieve pressure within the container . . . makes removal of partially filled containers messy." *Id.* col. 1, II. 51-60. Third, there have been devices using a peristaltic pump. However, such devices are usually complex and expensive. The '226 patent discloses an ink jet device and supply system using a hand actuated peristaltic pump. The use of hand pumping overcomes the usual complexity and expense of such devices.

Trident also manufactures ink for use with its patented printheads. Trident's standard form licensing agreement allowing the OEMs to use its patented product requires "OEMs to purchase their ink for Trident-based systems exclusively from Trident." (Br. of Appellees at 8.) Specifically, the licensing agreement grants the right to "manufacture, use and

sell . . . ink jet printing devices supplied by Trident" only "when used in combination with ink and ink supply systems supplied by Trident." (J.A. at 275.) There is now no claim that the ink is protected by any of Trident's patents.[1] We thus have an explicit tying agreement conditioning the sale of a patented product (the printhead covered by the '226 patent (and possibly other patents as well)) on the sale of an unpatented one (the ink).

Independent is a competing manufacturer of ink. It manufactures ink usable in Trident's printheads. Independent filed suit in the United States District Court for the Central District of California on August 14, 1998, initially seeking a declaratory judgment of non-infringement and invalidity against Trident's patents. Independent subsequently amended its complaint to allege that Trident was engaged in illegal tying and monopolization in violation of sections 1 and 2 of the Sherman Act, 15 U.S.C. § 1 *et seq.* Both parties moved for summary judgment as to the section 1 claim, and Trident moved for summary judgment as to the section 2 claim. The district court granted summary judgment in favor of Trident on both claims.

The district court held that for patent tying to constitute a violation of the antitrust laws, the plaintiff must affirmatively prove market power. *Indep. Ink*, 210 F. Supp. 2d at 1162. The district court, in a footnote, dismissed several Supreme Court cases holding to the contrary as "vintage." *Id.* at 1165 n. 10. Addressing the Supreme Court's more recent decision in *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2, 16, 104 S. Ct. 1551, 80 L. Ed. 2d 2 (1984), it declined to follow the rule announced by the majority in that case that "the sale or lease of a patented item on condition that the

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[1] Although Trident initially claimed patent rights over the ink used in its printheads and sued Independent for infringement, that infringement claim was dismissed with prejudice.

buyer make all his purchases of a separate tied product from the patentee is unlawful." Instead, relying on the concurring opinion in *Jefferson Parish*, the dissent from a denial of certiorari by two members of the *Jefferson Parish* majority,[2] and academic criticisms of the presumption of market power, the district court dismissed the majority opinion of *Jefferson Parish* as dictum that should not be followed. *Indep. Ink*, 210 F. Supp. 2d at 1164-65. The district court found that Independent submitted no affirmative evidence defining the relevant market nor proving Trident's power within it, and therefore could not prevail in either antitrust claim. *Id.* at 1173-77.

The parties settled all their remaining claims, which were accordingly dismissed with prejudice, and final judgment was entered. This appeal followed. Because the complaint originally contained a claim for declaratory judgment of invalidity and non-infringement of the '226 patent, we have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1).

DISCUSSION

I

The first issue before us is whether Federal Circuit or Ninth Circuit law governs the legality of patent tying under the Sherman Act, an issue which may arise both in the context of affirmative claims (as here) and in the context of a patent misuse defense. We have previously held that where an affirmative antitrust claim or antitrust misuse defense is based on "procuring or enforcing a patent," the central antitrust question is a matter governed by Federal Circuit law. *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1067-68 (Fed. Cir. 1998) (en banc in relevant part). We conclude that the antitrust consequences of patent tying like-

[2] *Data Gen. Corp. v. Digidyne Corp.*, 473 U.S. 908, 908, 105 S. Ct. 3534, 87 L. Ed. 2d 657 (1985) (White, J., joined by Blackmun, J., dissenting from denial of certiorari).

wise is a question governed by our law.[3] However, as stated in *Nobelpharma*, "we will continue to apply the law of the appropriate regional circuit to issues involving other elements of antitrust law," such as defining the relevant market and determining as a factual matter whether power exists within that market. *Id.* at 1068.

II

We now address the Sherman Act section 1 claim. This case first requires us to determine whether patent tying is illegal per se (or presumptively illegal) under the Sherman Act,[4] or whether the plaintiff is obliged to prove as part of its affirmative case that the patent confers market power in the relevant market for the tying product.

This case comes to us with a long history of Supreme Court consideration of the legality of tying arrangements. Earlier Supreme Court cases dealing with tying agreements were extremely hostile to them, whether the case involved intellectual property or other tying products. The first case that found tying to violate section 1 of the Sherman Act was a patent tying case. *Int'l Salt Co. v. United States*, 332 U.S. 392, 68 S. Ct. 12, 92 L. Ed. 20 (1947).[5] In *Standard Oil Co.*

[3] We note that tying as a defense in patent cases is governed by statute. 35 U.S.C. § 271(d)(5) (2000).

[4] Independent expressly states in its brief that its position before this court is that Trident's contracts violate the Sherman Act. (Br. of Appellant at 9.) Therefore, we do not consider whether there are any violations of Clayton Act § 3, 15 U.S.C. § 14 (2000).

[5] Prior to this, the Court had found tying, including patent tying, to violate section 3 of the Clayton Act in an action to enjoin the enforcement of patent tying agreements. *United Shoe Mach. Corp. v. United States*, 258 U.S. 451, 42 S. Ct. 363, 66 L. Ed. 708 (1922). It had also found patent tying to be a defense in a patent infringement action. *Motion Picture Patents Co. v. Universal Film Mfg.*, 243 U.S. 502, 37 S. Ct. 416, 61 L. Ed. 871 (1917).

v. United States, 337 U.S. 293, 305, 69 S. Ct. 1051, 93 L. Ed. 1371 (1949), the Court commented that "[t]ying agreements serve hardly any purpose beyond the suppression of competition." In *Northern Pacific Railway Co. v. United States*, 356 U.S. 1, 78 S. Ct. 514, 2 L. Ed. 2d 545 (1958), the Court held again that:

> Tying arrangements . . . flout the Sherman Act's policy that competition rule the marts of trade . . . . By conditioning his sale of one commodity on the purchase of another, a seller coerces the abdication of buyers' independent judgment as to the "tied" product's merits and insulates it from the competitive stresses of the open market.

Id. at 10, 78 S. Ct. 514 (quoting *Times-Picayune Publ'g Co. v. United States*, 345 U.S. 594, 605, 73 S. Ct. 872, 97 L. Ed. 1277 (1953)). The Court held that Northern Pacific's conditioning the lease of its land to shipping commodities on its railway lines violated the Sherman Act, because Northern Pacific's landholdings gave it "sufficient economic power to impose an appreciable restraint on free competition in the tied product." *Id.* at 11, 78 S. Ct. 514.

Later Supreme Court cases reflected divergent treatment, depending on whether statutory intellectual property was involved. Those cases not involving patents or copyrights refined the test, holding that tying was only unlawful if the defendant had "market power" in the market for the tying product. As articulated in *United States Steel Corp. v. Fortner Enterprises, Inc.*, 429 U.S. 610, 620, 97 S. Ct. 861, 51 L. Ed. 2d 80 (1977) ("*Fortner II*"), this requirement of "market power" necessitated an inquiry into "whether the seller has the power, within the market for the tying product, to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market." The requirement of demonstrating sufficient market power to raise prices was notably more onerous than the

Northern Pacific requirement that there be some power to "appreciably restrain free competition."[6]

The Supreme Court further explained the requirement for market power in the 1984 *Jefferson Parish* decision, which involved an agreement requiring patients of a hospital to use a particular anesthesiology firm. The Court stated that "certain tying arrangements pose an unacceptable risk of stifling competition." 466 U.S. at 9, 104 S. Ct. 1551. But the "unacceptable risk of stifling competition" arises, and consequent liability attaches, only if there is anticompetitive "forcing." As explained by the Court:

> [T]he essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms. When such "forcing" is present, competition on the merits in the market for the tied item is restrained and the Sherman Act is violated.

Id. at 12, 104 S. Ct. 1551. The requirement of proving "forcing" or "market power" in cases not involving intellectual property necessitates a definition of the market in which such power is alleged to exist and showing an "actual adverse effect on competition." *Id.* at 29-31, 104 S. Ct. 1551. The Su-

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[6] Under the *Northern Pacific* test, market power could be inferred from having "unique economic advantages" of some kind. *Fortner Enters., Inc. v. United States Steel Corp.*, 394 U.S. 495, 505, 89 S. Ct. 1252, 22 L. Ed. 2d 495 (1969) ("*Fortner I*"). In contrast, *Fortner II* requires the ability to actually raise prices in a relevant market. Since *Jefferson Parish* found a 30% market share inadequate, lower courts in subsequent cases have generally refrained from condemning tying arrangements where the defendant had less than a 30% market share. *See* Herbert Hovenkamp, *Federal Antitrust Policy: The Law of Competition and Its Practice* § 10.3, at 397 & n. 19 (2d ed. 1999) (collecting cases).

preme Court reaffirmed the requirement of market power in such cases in *Eastman Kodak Co. v. Image Technical Services*, 504 U.S. 451, 462, 112 S. Ct. 2072, 119 L. Ed. 2d 265 (1992), where it held that tying "violates § 1 of the Sherman Act if the seller has 'appreciable economic power' in the tying product market and if the arrangement affects a substantial volume of commerce in the tied market."

The Court's treatment of tying cases when the tying product is patented or copyrighted, however, has been more consistent. In the 1947 *International Salt* case, the defendant held patents over "machines for utilization of salt products." 332 U.S. at 394, 68 S. Ct. 12. It leased these machines on the condition that the lessee purchase from the defendant "all unpatented salt and salt tablets consumed in the leased machines." *Id.* The Supreme Court held that this arrangement violated the Sherman Act, holding that "the patents confer no right to restrain use of, or trade in, unpatented salt." *Id.* at 395-96, 68 S. Ct. 12. The Court found that by tying the lease of machines to the purchase of salt, and "contracting to close this market for salt against competition, [the defendant] engaged in a restraint of trade for which its patents afford no immunity from the antitrust laws." *Id.* at 396, 68 S. Ct. 12. The Court made no inquiry of the defendant's market power, finding that "the admitted facts left no genuine issue .... [T]he tendency of the [patent tying] arrangement to accomplishment of monopoly seems obvious." *Id.*

In *United States v. Loew's, Inc.*, 371 U.S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962), relying on *International Salt*, the Court made clear that, where the tying product is patented or copyrighted, market power may be presumed rather than proven. *Loew's* involved the tying of less popular films to popular copyrighted films by movie distributors in their licenses to television stations. The Court stated that in tying cases not involving intellectual property the "standard of illegality is that the seller must have sufficient economic power with respect to the tying product to appreciably restrain free

competition in the market for the tied product." *Id.* at 45, 83 S. Ct. 97. However, "[t]he requisite economic power is presumed when the tying product is patented or copyrighted." *Id.* The *Loew's* Court confirmed that patent tying is a distinct doctrine when it noted defendants' argument "that their behavior is not to be judged by the principle of the patent cases . . ., but by the general principles which govern the validity of tying arrangements of nonpatented products." *Id.* at 48, 83 S. Ct. 97. The *Loew's* Court also stated that it needed not inquire into whether the distributors had market power. "[T]he mere presence of competing substitutes for the tying product . . . is insufficient to destroy the legal, and indeed the economic, distinctiveness of the copyrighted product." *Id.* at 49, 83 S. Ct. 97.

The subsequent Supreme Court cases that have required proof of market power in tying cases not involving intellectual property have consistently reaffirmed the holdings of *International Salt* and *Loew's* that no proof of market power is necessary in patent or copyright tying cases. The *Fortner II* Court in 1977 expressly restated the presumption of market power in cases of patent tying, stating that "the statutory grant of a patent monopoly in [*International Salt*] . . . represented tying products . . . sufficiently unique to give rise to a presumption of economic power." 429 U.S. at 619, 97 S. Ct. 861. Likewise, the *Jefferson Parish* Court in 1984 stated that "if the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." 466 U.S. at 16, 104 S. Ct. 1551.

In sum, the Supreme Court cases in this area squarely establish that patent and copyright tying, unlike other tying cases, do not require an affirmative demonstration of market power. Rather, *International Salt* and *Loew's* make clear that the necessary market power to establish a section 1 violation is presumed. The continued validity of *International Salt* and *Loew's* as binding authority, and the distinction between pat-

ent tying and other tying cases that was articulated in *Loew's*, have been consistently reaffirmed by the Court ever since.[7]

III

Defendants attempt to distinguish *International Salt* and *Loew's* on the ground that they were cases brought by the United States. Specifically, they argue that *International Salt* and *Loew's* apply only to government cases because prior to *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172, 86 S. Ct. 347, 15 L. Ed. 2d 247 (1965), private parties could not bring antitrust tying suits. This is simply incorrect. *See, e.g., Switzer Bros., Inc. v. Locklin*, 297 F.2d 39 (7th Cir. 1961), *cert. denied*, 369 U.S. 861, 82 S. Ct. 950, 8 L. Ed. 2d 18 (1962) (private party patent tying case in 1961, four years before *Walker Process*). Moreover, we can see no persuasive reason to make such a distinction between government and private party plaintiffs. There is no indication whatsoever in either *International Salt* or *Loew's* that the Court considered it important that it was the United States bringing suit. We further note that the manifest purpose of the statute authorizing private party actions, 15 U.S.C. § 15 (2000), is to encourage the enforcement of the antitrust laws. *Zenith Radio Corp. v. Hazeltine Re-*

[7] It is noteworthy that Congress has declined to require a showing of market power for affirmative patent tying claims as opposed to patent misuse defenses based on patent tying. Proof of actual market power is required to establish a patent misuse defense based on patent tying. Act of Nov. 19, 1988, Pub.L. No. 100-703, § 201, 102 Stat. 4674, 4676 (codified at 35 U.S.C. § 271(d)(5) (2000)). The version of Public Law No. 100-703 that originally emerged from the Senate contained language also abrogating the presumption of market power in antitrust patent tying cases. *See* 134 Cong. Rec. 30,688-89 (1988). This language was removed in a House amendment and does not appear in the statute, *see* 134 Cong. Rec. 32,295 (1988), making clear that Congress was not attempting to change existing law in this respect.

search, Inc., 395 U.S. 100, 130-31, 89 S. Ct. 1562, 23 L. Ed. 2d 129 (1969). We conclude that defendants' attempt to distinguish *International Salt* and *Loew's* as involving suits brought by the United States is without merit.

IV

The defendants argue alternatively that *International Salt* and *Loew's* are no longer good law. They offer three theories in support of this contention. First, they point to *Walker Process*, where the Court stated in a patent antitrust case that it was "reluctant to extend [per se illegality] on the bare pleadings and absent examination of market effect and economic consequences." 382 U.S. at 178, 86 S. Ct. 347. But *Walker Process* was a section 2 case asserting claims of monopolization, not a section 1 claim for tying. Moreover, the gravamen of *Walker Process* was the inappropriate obtaining of the patent, *id.* at 174, 86 S. Ct. 347, not the extension of that patent beyond its terms to an unpatented article through a tying arrangement, *see Int'l Salt*, 332 U.S. at 395-96, 68 S. Ct. 12. We conclude that *Walker Process* does not articulate a rule applicable to patent tying cases.[8]

The defendants next point to Justice O'Connor's concurrence in *Jefferson Parish*, which was joined by Chief Justice Burger, Justice Powell and then-Justice (now Chief Justice) Rehnquist, stating that it is a "common misconception . . . that a patent or copyright . . . suffices to demonstrate market power." 466 U.S. at 37 n. 7, 104 S. Ct. 1551 (O'Connor, J., concurring). Defendants argue that the 1984 *Jefferson Parish* concurrence, coupled with a dissent in the following year joined by two members of the *Jefferson Parish* majority,[9]

[8] Many of this court's decisions upon which defendants rely are also *Walker Process* cases. *See, e.g., Abbott Labs. v. Brennan*, 952 F.2d 1346 (Fed. Cir. 1991).

[9] *Data Gen.*, 473 U.S at 908, 105 S. Ct. 3534 (White, J., joined by Blackmun, J., dissenting from denial of certiorari).

imply that a then-majority of the Court indicated that *International Salt* and *Loew's* were no longer good law. The district court relied on this reasoning. *Indep. Ink*, 210 F. Supp. 2d at 1164-65. It is not persuasive. Justice White's opinion in *Data General*, joined by Justice Blackmun, did not expressly contradict *International Salt*, *Loew's*, *Jefferson Parish*, or opine that a showing of market power was required in patent and copyright tying cases. Justice White noted that the court of appeals "viewed [a] copyright . . . as creating a presumption of market power, and seemingly concluded that forcing power is sufficiently established to demonstrate per se antitrust liability if some buyers find the tying product unique and desirable." *Data Gen.*, 473 U.S. at 909, 105 S. Ct. 3534. The only conclusion Justice White drew was that the case raised "several substantial questions of antitrust law and policy, including . . . what effect should be given to the existence of a copyright or other legal monopoly in determining market power." *Id.* This hardly amounts to a repudiation of the presumption of market power. More importantly, the district court's practice of "nose-counting," as one sister circuit has called it, *Felton v. Sec'y, United States Dep't of Educ.*, 739 F.2d 48, 72 n. 25 (2d Cir. 1984), is "a pastime in which we do not commonly engage." *United States v. Curcio*, 712 F.2d 1532, 1542 (2d Cir. 1983).

The defendants finally point to the numerous academic articles criticizing the Supreme Court cases relying on a presumption of market power in patent and copyright cases.[10] We recognize that the Supreme Court precedent in this area

[10] The defendants also point out that the Department of Justice and the Federal Trade Commission have resolved, as a matter of their prosecutorial discretion, not to presume that a patent or copyright confers market power. U.S. Dep't of Justice and Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* § 5.3 (1995). This of course does not affect the validity of the Supreme Court's decisions in *International Salt* and *Loew's*.

has been subject to heavy criticism. *See, e.g.*, Phillip E. Areeda, Einer Elhauge and Herbert Hovenkamp, 10 *Antitrust Law* ¶ 1737c (2d ed.2004); Hovenkamp, *Federal Antitrust Policy* § 10.3 ("[M]ost patents confer absolutely no market power on their owners . . . . The economic case for 'presuming' sufficient market power . . . simply because the tying product is patented . . . is very weak."); Richard A. Posner, *Antitrust Law* 197-98 (2d ed. 2001) ("[M]ost patents confer too little monopoly power to be a proper object of antitrust concern. Some patents confer no monopoly power at all."). Defendants point out that, based on a student note critical of the doctrine, the Sixth Circuit has been persuaded to hold that: "*Loew's* [was] overbroad and . . . we reject any absolute presumption of market power for copyright or patented product . . . such a presumption is not warranted merely by existence of a copyright or patent." *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673, 676 (6th Cir. 1986).[11] The defendants also point out that two Seventh Circuit decisions, *USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505 (7th Cir. 1982), and *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665 (7th Cir. 1985), in dictum have suggested that proof of market power may be required in patent and copyright tying cases.

The fundamental error in all of defendants' arguments is that they ignore the fact that it is the duty of a court of appeals to follow the precedents of the Supreme Court until the Court itself chooses to expressly overrule them. This message has been conveyed repeatedly by the Court. The Court's "decisions remain binding precedent until [it] see[s] fit to reconsider them, regardless of whether subsequent cases have raised doubts about their continuing vitality." *Hohn v. United*

[11] The Sixth Circuit stated that its decision was "based on the cogent reasoning in Note, *The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements*, 85 Colum. L. Rev. 1140 (1985)." *A.I. Root*, 806 F.2d at 676.

States, 524 U.S. 236, 252-53, 118 S. Ct. 1969, 141 L. Ed. 2d 242 (1998). "If a precedent of th[e] Court has direct application in a case, yet appears to rest on reasons rejected in some other line of decisions, the Court of Appeals should follow the case which directly controls, leaving to th[e] Court the prerogative of overruling its own decisions." *Rodriguez de Quijas v. Shearson/American Exp., Inc.*, 490 U.S. 477, 484, 109 S. Ct. 1917, 104 L. Ed. 2d 526 (1989). Even where a Supreme Court precedent contains many "infirmities" and rests upon "wobbly, moth-eaten foundations," it remains the "Court's prerogative alone to overrule one of its precedents." *State Oil Co. v. Khan*, 522 U.S. 3, 20, 118 S. Ct. 275, 139 L. Ed. 2d 199 (1997). None of the authorities that defendants present, whether it be the language of Walker Process, the concurrence in *Jefferson Parish*, or the dissent from denial of certiorari in *Data General*, constituted an express overruling of *International Salt* or *Loew's*. We conclude that the Supreme Court has held that there is a presumption of market power in patent tying cases, and we are obliged to follow the Supreme Court's direction in this respect. The time may have come to abandon the doctrine, but it is up to the Congress or the Supreme Court to make this judgment.

V

We must therefore address the scope of the rule announced by the Supreme Court's patent and copyright tying cases. Independent submits that under *International Salt* and its progeny, patent tying is per se illegal in every case and market power is irrebuttably presumed. In this area, unfortunately, there is no Supreme Court case directly addressing the issue, and we are required to ascertain the rule from dictum. *Loew's* expressly stated that "[t]here may be rare circumstances in which the doctrine we have enunciated under § 1 of the Sherman Act prohibiting tying arrangements involving patented or copyrighted tying products is inapplicable." 371 U.S. at 49-50, 83 S. Ct. 97. *Jefferson Parish* confirmed that *International Salt* created only a presumption of market

power: "[I]f the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." 466 U.S. at 16, 104 S. Ct. 1551 (emphasis added). It would stretch the language of "fair to presume" beyond the breaking point to say that such a presumption is irrebuttable. We are obliged to follow such clearly articulated Supreme Court dicta. *Ins. Co. of the West v. United States*, 243 F.3d 1367, 1372 (Fed. Cir. 2001); *Stone Container Corp. v. United States*, 229 F.3d 1345, 1349-50 (Fed. Cir. 2000).

Other circuits have similarly interpreted the Supreme Court's patent and copyright tying cases to create a rebuttable presumption of market power. *See, e.g., Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336, 1344 (9th Cir. 1984) (Copyright "created a presumption of economic power sufficient to render the tying arrangement illegal per se. The burden to rebut the presumption shifted to defendant."); *Susser v. Carvel Corp.*, 332 F.2d 505, 521 (2d Cir. 1964) ("[W]here the tying product is patented, the patentee should be permitted to show that in the entire factual setting . . . the patent does not create the market power requisite to illegality of the tying clause . . . . [A] patent is prima facie evidence of market control." (internal citations omitted)); *but see MCA Television Ltd. v. Pub. Interest Corp.*, 171 F.3d 1265, 1276-79 (11th Cir. 1999) (appearing to assume that presumption is not rebuttable).

Thus, a patent presumptively defines the relevant market as the nationwide market for the patented product itself, and creates a presumption of power within this market. Once the plaintiff establishes a patent tying agreement, it is the defendant's burden to rebut the presumption of market power and consequent illegality that arises from patent tying.

VI

The district court found that, even if there was a presumption of market power in patent tying cases, any presumption of market power was rebutted in this case because

> it is undisputed that consumers could place bar-coded labels on their products before other competitors manufactured bar-coding printers, and Plaintiff does not establish that the various labeling systems are not proper substitutes for Defendants' printhead system or dispute Defendants' arguments that they are. Moreover . . . at least two other competitors . . . have designed printheads that can print bar codes on kraft paper. The fact that [two competitors] have done so indicates that any barriers to entry, such as R & D and manufacturing costs, are not so great as to prevent competitors from entering the market.

Indep. Ink., 210 F. Supp. 2d at 1167. The defendants argue that the district court was correct because there is testimony here by the president of an OEM that consumers use labels as substitutes for Trident's printhead technology, (J.A. at 983), and it is undisputed that two competitors offer competing printheads.

However, "[t]he mere presence of competing substitutes for the tying product . . . is insufficient to destroy the legal, and indeed the economic, distinctiveness of the [patented] product." *Digidyne*, 734 F.2d at 1345 (quoting *Loew's*, 371 U.S. at 49, 83 S. Ct. 97). Rather, the definition of a market requires careful consideration of both the product and geographic markets. *Bhan v. NME Hosp., Inc.*, 929 F.2d 1404, 1413 (9th Cir. 1991). The presumption can only be rebutted by expert testimony or other credible economic evidence of the cross-elasticity of demand, the area of effective competition, or other evidence of lack of market power. *See Tanaka v. Univ. of So. Cal.*, 252 F.3d 1059, 1063 (9th Cir. 2001); *Forro Precision, Inc. v. Int'l Bus. Machs. Corp.*, 673 F.2d 1045, 1052 (9th Cir. 1982). On the present record there is not

sufficient evidence to rebut the presumption of market power resulting from the patent itself, or to create a genuine issue of material fact on the issue.

Accordingly, we reverse the district court's grant of summary judgment on the Sherman Act section 1 claim.[12] Because plaintiff's summary judgment motion appeared to rest entirely on a theory that the presumption of market power is irrebuttable, we remand to the district court to permit defendants an opportunity to supplement the summary judgment record with evidence that may rebut the presumption. Should the defendants on remand fail to present sufficient relevant evidence to create a genuine issue of material fact as to whether the presumption has been rebutted, partial summary judgment on liability under section 1 of the Sherman Act should be granted.[13]

VII

We turn next to the section 2 claim. The presumption of illegality in patent tying arises in section 1 cases. Neither *International Salt* nor *Loew's* dealt with section 2 of the Sherman Act. *See Int'l Salt*, 332 U.S. at 393 & n. 1, 68 S. Ct.

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[12] In the district court the defendants argued that summary judgment should also be denied because plaintiff failed to show two separate products and that the tying agreement affected a not insubstantial amount of commerce in the tied product. *Indep. Ink*, 210 F. Supp. 2d at 1162 n. 7. Despite these arguments, the district court noted that "both parties seem to agree that market power will be the dispositive element in this case." *Id.* Defendants have not renewed these arguments on appeal, and we treat them as abandoned.

[13] On remand, should the plaintiff prevail on liability, the district court should then assess damages. The district court then should also determine the scope of the tying agreement as the parties dispute whether end users as well as OEMs are bound by the tying agreement.

12; *Loew's*, 371 U.S. at 39 & n. 1, 83 S. Ct. 97. To establish a monopolization claim under section 2 of the Sherman Act, there must be monopoly power in the relevant market and the willful acquisition or maintenance of that power. *Verizon Communications, Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 124 S. Ct. 872, 878-79, 157 L. Ed. 2d 823 (2004). To establish an attempted monopolization claim, plaintiff must demonstrate that the defendant had specific intent to monopolize a relevant market and a "dangerous probability of success." *Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447, 455, 113 S. Ct. 884, 122 L. Ed. 2d 247 (1993). It follows that in section 2 cases a definition of the relevant market and consideration of the defendant's power within that market are required. *Id.* at 455-56, 113 S. Ct. 884; *Walker Process*, 382 U.S. at 177-78, 86 S. Ct. 347.

In this case, the alleged monopolization is over the tied product, the ink, not the tying product, the printhead technology. The patent tying cases do not create any presumption that market power over the tying product confers the degree of market power over the tied product necessary to establish a monopolization or attempted monopolization claim. *See Fortner II*, 429 U.S. at 619, 97 S. Ct. 861. In section 2 cases, the plaintiff bears the burden of defining the market and proving defendant's power in that market. *See Spectrum Sports*, 506 U.S. at 455-56, 113 S. Ct. 884. As the district court found, plaintiff makes only the conclusory allegation of a geographic market without supporting economic evidence. *Indep. Ink*, 210 F. Supp. 2d at 1175. Such conclusory statements are not sufficient to define a relevant market. *Morgan, Strand, Wheeler & Biggs v. Radiology, Ltd.*, 924 F.2d 1484, 1490 (9th Cir. 1991). Therefore, there is no genuine issue of material fact as to the section 2 claim and summary judgment was properly granted.

CONCLUSION

For the foregoing reasons, we affirm the district court's grant of summary judgment as to the Sherman Act section 2 claim. We reverse the district court's grant of summary judgment as to the Sherman Act section 1 claim and remand for further proceedings not inconsistent with this opinion.

AFFIRMED-IN-PART, REVERSED-IN-PART, AND REMANDED.

APPENDIX B

United States District Court,
C.D. California.

INDEPENDENT INK, INC., a California corporation,
Plaintiff,

v.

TRIDENT, INC., a Connecticut corporation;
ILLINOIS TOOL WORKS, INC.; and DOES 1 through 50,
Defendants.

No. CV98-6686 NM(CWx).

June 3, 2002.

ORDER

1) DENYING PLAINTIFF'S MOTION FOR PARTIAL SUMMARY JUDGMENT

2) GRANTING DEFENDANTS' MOTION FOR PARTIAL SUMMARY JUDGMENT

MANELLA, District Judge.

I. FACTS

Independent Ink, Inc. ("Plaintiff") is a distributor and supplier of printer ink and ink products. Trident, Inc. ("Trident") and Illinois Tool Works, Inc. ("ITW") (collectively, "Defendants") manufacture: 1) a patented piezoelectric ink jet printhead, the first of its type; 2) a patented ink container, consisting of a bottle and a valved cap, that attaches to the printhead; and 3) ink specially formulated for use in Trident's printhead system. Original equipment manufacturers ("OEMs") use Defendants' printhead system to manufacture printers that print bar codes on corrugated materials and kraft paper. These printers are then sold through a network of distributors to end users, usually large product manufacturers, who use the printers to place bar codes on their cartons.

Trident licenses its patented products to OEMs as a package. Trident's license allows OEMs to "manufacturer, use and sell equipment employing and including ink jet printing devices supplied by Trident when used in combination with ink and ink supply systems supplied by Trident . . . ." Plaintiff's Memorandum of Points & Authorities, Ex. 1 (emphasis omitted).[1] Plaintiff alleges that these licenses ("OEM agreements") require OEMs and their customers, end users of printers incorporating Trident's printhead system, to purchase their ink exclusively from Trident. Defendants concede that: 1) OEMs must purchase their ink from Trident; and 2) OEMs and end users may not re-fill Trident ink containers with *any* ink, as they are intended as single-use containers. Defendants' Supplemental Brief, March 22, 2002, at 2. Trident's internal memoranda, proffered by Plaintiff, confirm that OEMs must purchase their ink from Trident and that neither OEMs nor end users may re-fill Trident's ink cartridges. *See, e.g.*, Plaintiff's Supplemental Brief, March 28, 2002, Ex. E; Plaintiff's Memorandum of Points & Authorities, Exs. 1-2. However, Defendants contend that the OEM agreements do not prevent end users from purchasing ink and ink containers from third-party ink manufacturers, like Plaintiff. *See* O'Connor Decl., February 11, 2002, Ex. 35. Various manufacturers offer ink for use in Trident's printhead system, including Graphic Controls, Squid Ink. Renewable Resources, and ATG. *See, e.g.*, Wystma Decl., Ex. C (Admission No. 26); Brucker Depo., July 24, 2000, at 145-46; Brucker Depo., July 25, 2000, at 97; O'Connor Decl., February 11, 2002,

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[1] Plaintiff's exhibits attached to the following briefs are not properly authenticated, as they are not accompanied by sworn declarations: 1) Plaintiff's Memorandum of Points & Authorities in Support of its Motion for Summary Judgment, October 3, 2001; and 2) Plaintiff's Supplemental Brief, March 28, 2002. *See Orr v. Bank of Am.*, 285 F.3d 764, 773-74 (9th Cir. 2002). However, as Defendants do not challenge their authenticity, the court will consider them.

Exs. 5, 6, 36; Defendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 15. Although Plaintiff asserts that Trident does not warranty its printhead system for use with third-party inks, Plaintiff does not dispute "the existence of competitors such as Squid Ink, ATG, and Graphic Controls, which, among other competitors in the ink jet ink market, offer ink for use in printing systems incorporating Trident's printhead." Defendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 15.

Trident is not the only competitor who manufactures systems for affixing bar codes to cartons. At least two other companies, Markem and Xaar, have developed printheads capable of printing bar codes on corrugated materials and kraft paper. Wystma Decl., Ex. C (Admission No. 31); Wystma Decl., Ex. F, Brucker Depo. at 120-21; Defendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 16.[2] Product manufacturers also use labeling systems to print bar-coded labels, which are then affixed to cartons. Wystma Decl., Ex. F, Brucker Depo. at 191, 205, 207; Defendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 21. Plaintiff does not dispute testimony that these labeling systems compete with Trident's printhead systems. Pullen Depo. at 101; Wystma Decl., Ex. H, Barnett Depo. at 119.

On August 14, 1998, Plaintiff filed an action seeking a declaratory judgment that it did not infringe upon two of Defendants' patents, and Trident subsequently filed a patent infringement action against Plaintiff.[3] Plaintiff amended its

[2] Plaintiff does not dispute that "competitors, such a Markem and Xaar, offer printers which, like the Trident printhead, are capable of printing barcodes on corrugated materials and kraft paper." Defendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 16.

[3] Plaintiff added ITW as a party to this action after ITW acquired Trident.

complaint to allege that Defendants orchestrated unlawful tying arrangements in violation of the Sherman Act, § 15 U.S.C. § 1 *et seq.*, and Section 16727 of the Cartwright Act, California Business & Professional Code § 16700 *et seq.* Plaintiff alleges that Defendants conditioned the sale of their patented printhead systems ("the tying product") upon OEMs' also purchasing and distributing Trident's ink ("the tied product").[4] Plaintiff alleges that these tying arrangements preclude OEMs and end users from purchasing printer ink from third parties, like Plaintiff, restraining trade, in violation of Section 1 of the Sherman Act. Fourth Amended Complaint ¶¶ 20-27. Plaintiff also alleges that Defendants monopolized, attempted to monopolize, and conspired to monopolize the market for ink used in Trident's printhead system, in violation of Section 2 of the Sherman Act. *Id.* ¶¶ 21, 26.

Both parties move for summary judgment of Plaintiff's Section 1 claim, and Defendants move for summary judgment of Plaintiff's Section 2 claim. With respect to its Section 1 claim, Plaintiff argues that Defendants necessarily have market power in the market for the tying product as a matter of law solely by virtue of the patent on their printhead system, thereby rendering Defendants' tying arrangements *per se* violations of the antitrust laws. Plaintiff contends "[a]s a matter of law, one cannot use contracts which contain patent licenses and make the patent licenses conditioned upon the sale of products which are not patented." Plaintiff's Memorandum of Points & Authorities at 14. However, Plaintiff concedes that "the mere fact of having a patent does not create market power *vis-a-vis* the products with which the patented product competes." Plaintiff's Reply Brief at 4. Plaintiff does not dispute that its sales have increased during the period Trident allegedly violated the antitrust laws. De-

[4] Plaintiff's motion does not address how Trident's ink containers relate to its tying claim. Trident has maintained throughout this litigation that the container and the ink constitute one product.

fendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 32. Thus, the issue before this court concerning Plaintiff's claim under Section 1 of the Sherman Act is narrowly focused upon whether a patent confers market power in the market for the tying product as a matter of law.

Plaintiff's motion and opposition to Defendants' motion do not discuss the products at issue, their substitutes, or the relevant markets. Plaintiff's expert witness "did not perform an antitrust analysis at all." Plaintiff's Response to Defendants' Statement of Uncontroverted Facts, December 4, 2001, at ¶ 10. Plaintiff's motion cites little authority in support of its argument and identifies no tying case in which a court granted the plaintiff summary judgment solely by virtue of the fact that the defendant held a patent on the tying product. Plaintiff's Statement of Uncontroverted Facts in support of its motion contains only one fact: "[Defendants'] OEM agreements contain a patent license on their patented printhead technology. A precondition to this license is that Trident's OEMs as well as their customers (i.e. end users) purchase all of their consumable products (ink) from [Defendants], whether or not those consumables are patented." Plaintiff's Statement of Uncontroverted Facts, October 3, 2001, at ¶ 1. Plaintiff's Statement contains only one conclusion of Law: "Patent tying contracts are a *per se* violation of the antitrust laws." *Id.* ¶ 1. Plaintiff does not argue that Defendants' tying arrangements violate the Sherman Act pursuant to the Rule of Reason.[5] Nor does Plaintiff's motion or opposition to Defendants' motion address its claims that De-

[5] Tying arrangements may be unlawful per se or pursuant to the Rule of Reason. *See County of Tuolumne v. Sonora Cmty. Hosp.*, 236 F.3d 1148, 1157 (9th Cir. 2001) (citations omitted). "[T]he inquiry mandated by the Rule of Reason is whether the challenged agreement is one that promotes competition or one that suppresses competition." *National Soc'y of Prof'l Eng'rs v. United States*, 435 U.S. 679, 691, 98 S. Ct. 1355, 55 L. Ed. 2d 637 (1978).

fendants monopolized, attempted to monopolize, and conspired to monopolize the market for ink in violation of Section 2 of the Sherman Act.[6]

With respect to the Section 1 claim, Defendants argue that Plaintiff cannot establish that Defendants had market power in the tying product market, a requisite element of a tying case. Defendants dispute Plaintiff's contention that a patent, standing alone, with no consideration of the products at issue, their substitutes, or the relevant markets, establishes market power in a tying case as a matter of law. Defendants also argue that Plaintiff cannot establish market power through any other means, as Plaintiff: 1) developed no evidence with which to define the relevant product market; 2) developed no evidence with which to define the relevant geographic market; 3) proffers no credible evidence that Defendants have market power in the relevant market; and 4) identifies no legitimate barriers to entry.

Defendants also argue that Plaintiff cannot, as a matter of law, raise a triable issue of fact that Defendants violated Section 2 of the Sherman Act with respect to either the printhead market or the ink market. Defendants argue that Plaintiff cannot maintain a Section 2 claim with respect to the market for the patented printhead system for the same reasons it cannot prevail on its Section 1 claim. Defendants argue that Plaintiff cannot establish that Defendants monopolized, attempted to monopolize, or conspired to monopolize the ink market, as Plaintiff: 1) developed no evidence with which to define the relevant product market; 2) developed no evidence with which to define the relevant geographic market; and 3) proffers no credible evidence that Defendants possess mo-

[6] The court ordered additional briefing from both parties February 1 and March 15, 2002 on whether Defendants violated Section 2 of the Sherman Act.

nopoly power in the relevant market or ever had a "dangerous probability of success" in achieving monopoly power.

II. LEGAL STANDARD

Summary judgment is appropriate when "the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." Fed.R.Civ.P. 56(c). Summary judgment is "properly regarded not as a disfavored procedural shortcut, but rather as an integral part of the Federal Rules as a whole, which are designed 'to secure the just, speedy and inexpensive determination of every action.'" *Celotex Corporation v. Catrett*, 477 U.S. 317, 327, 106 S. Ct. 2548, 2555, 91 L. Ed. 2d 265 (1986) (quoting Fed.R.Civ.P. 1). Determinations of credibility, however, should be left to the trier of fact. *See Hanon v. Dataproducts Corp.*, 976 F.2d 497, 507 (9th Cir. 1992). Accordingly, issues that turn on such determinations should not be resolved at the summary judgment stage. *See id. See also Palacios v. City of Oakland*, 970 F. Supp. 732, 738 (N.D.Ca.1997) ("In judging evidence at the summary judgment stage, the Court does not make credibility determinations or weigh conflicting evidence[.]")

In a trio of 1986 cases, the Supreme Court clarified the applicable standards for summary judgment. *See Celotex, supra*; *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986); *Matsushita Electric Industry Co. v. Zenith Radio Corp.*, 475 U.S. 574, 106 S. Ct. 1348, 89 L. Ed. 2d 538 (1986). The moving party bears the initial burden of demonstrating the absence of a genuine issue of material fact. *See Anderson*, 477 U.S. at 256, 106 S. Ct. at 2514. The governing substantive law dictates whether a fact is material; if the fact may affect the outcome, it is material. *See id.* at 248, 106 S. Ct. at 2510. If the moving party seeks summary judgment with respect to a claim or defense

upon which it bears the burden of proof at trial, it must satisfy its burden with affirmative, admissible evidence. By contrast, when the non-moving party bears the burden of proving the claim or defense, the moving party can meet its burden by pointing out the absence of evidence submitted by the non-moving party. The moving party need not disprove the other party's case. *See Celotex*, 477 U.S. at 325, 106 S. Ct. at 2554.

If the moving party meets its initial burden, the "adverse party may not rest upon the mere allegations or denials of the adverse party's pleadings, but the adverse party's response, by affidavits or as otherwise provided in this rule, must set forth specific facts showing that there is a genuine issue for trial." Fed.R.Civ.P. 56(e). When assessing whether the non-moving party has raised a genuine issue, the court must believe the evidence and draw all justifiable inferences in the non-movant's favor. *Anderson*, 477 U.S. at 255, 106 S. Ct. at 2513 (citing *Adickes v. S.H. Kress & Co.*, 398 U.S. 144, 158-59, 90 S. Ct. 1598, 1608-09, 26 L. Ed. 2d 142 (1970)). Nonetheless, "the mere existence of a scintilla of evidence" is insufficient to create a genuine issue of material fact. *Id.* at 252, 106 S. Ct. at 2512. As the Supreme Court explained in *Matsushita*,

> [w]hen the moving party has carried its burden under Rule 56(c), its opponent must do more than simply show that there is some metaphysical doubt as to the material facts. . . . Where the record taken as a whole could not lead a rational trier of fact to find for the nonmoving party, there is no "genuine issue for trial."

Id., 475 U.S. at 586-87, 106 S. Ct. at 1356 (citations omitted).

To be admissible for purposes of summary judgment, declarations or affidavits must be based on personal knowledge, must set forth "such facts as would be admissible in evidence," and must show that the declarant or affiant is competent to testify concerning the facts at issue.

Fed.R.Civ.P. 56(e). Declarations on information and belief are insufficient to establish a factual dispute for purposes of summary judgment. *See Taylor v. List*, 880 F.2d 1040, 1045 (9th Cir. 1989).

III. PLAINTIFF'S SECTION ONE CLAIM– DEFENDANTS' TYING ARRANGEMENTS

"A tying arrangement exists when a seller refuses to sell one product, 'the tying product,' unless the buyer also purchases a second product, 'the tied product.'" Christopher R. Leslie, *Unilaterally Imposed Tying Arrangements and Antitrust's Concerted Action Requirement*, 60 OHIO ST.L.J. 1773, 1773 (1999). In order to establish that a tying arrangement violates Section 1 of the Sherman Act, a plaintiff must establish: 1) two distinct products or services; 2) a sale or agreement to sell the tying product conditioned upon the purchase of the tied product; 3) market power in the relevant market for the tying product; and 4) the tied product involves a "not insubstantial" amount of interstate commerce.[7] *Jefferson*

[7] Defendants argue that Plaintiff's motion does not adequately address several requisite elements. Plaintiff merely asserts in its reply brief that two distinct products exist in this case because one is a printhead and the other is ink for use with that technology. The issue whether two products are distinct "turns not on the functional relation between them, but rather on the character of the demand for the two items." *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 19, 104 S. Ct. 1551, 80 L. Ed. 2d 2 (1984). A tying arrangement is not unlawful unless there is sufficient demand for the tied product separate from that of the tying product so as to denote two separate markets. *Id. See also Allen-Myland, Inc. v. International Bus. Machs. Corp.*, 33 F.3d 194, 211-12 (3d Cir. 1994); *Service & Training, Inc. v. Data Gen. Corp.*, 963 F.2d 680, 684 (4th Cir. 1992) (Luttig, J.). As Defendants note, Plaintiff also fails to address sufficiently whether Defendants' sales of printer ink, the tied product, involved a "not insubstantial" amount of interstate commerce. *See Jefferson Parish*, 466 U.S. at 8, 104 S. Ct. 1551 (citing *Northern Pacific Ry. Co. v. United States*, 356 U.S. 1, 11,

Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 12-18, 104 S. Ct. 1551, 80 L. Ed. 2d 2 (1984). *See also Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 464, 112 S. Ct. 2072, 119 L. Ed. 2d 265 (1992); *United States v. Microsoft Corp.*, 253 F.3d 34, 85 (D.C. Cir. 2001); *County of Tuolumne v. Sonora Cmty. Hosp.*, 236 F.3d 1148, 1157 (9th Cir. 2001). The Ninth Circuit also requires that the defendant have an economic interest in the tied product. *See County of Tuolumne*, 236 F.3d at 1158. "[I]f the tying entity receives no economic benefit from the tie, then we can safely presume that it is not attempting to spread its power into the tied-product market, and we need not strike the arrangements down as an illegal tie under the antitrust laws." *Id.* (citing *Gonzalez v. St. Margaret's House Hous., Dev. Fund Corp.*, 880 F.2d 1514, 1517 (2d Cir. 1989)).

Market power is the power "to force a purchaser to do something that he would not do in a competitive market," viz., purchase a tied product that he either did not want or may have preferred to purchase elsewhere on different terms. *Eastman Kodak*, 504 U.S. at 464, 112 S. Ct. 2072 (quoting

78 S. Ct. 514, 2 L. Ed. 2d 545 (1958)). As the antitrust laws are intended to protect competition rather than individual competitors, a tying arrangement violates Section 1 of the Sherman Act only if it "affects a substantial volume of commerce in the tied market." *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 461-62, 112 S. Ct. 2072, 119 L. Ed. 2d 265 (1992) (*Fortner Enters., Inc. v. United States Steel Corp.*, 394 U.S. 495, 503, 89 S. Ct. 1252, 22 L. Ed. 2d 495 (1969) ("*Fortner I*")); *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 489, 97 S. Ct. 690, 50 L. Ed. 2d 701 (1977). "[T]he controlling consideration is simply whether a total amount of business, substantial enough in terms of dollar-volume so as not to be merely *de minimis*, is foreclosed to competitors by the tie ...." *Datagate, Inc. v. Hewlett-Packard Co.*, 60 F.3d 1421, 1425 (9th Cir. 1995) (quoting *Fortner I*, 394 U.S. at 501, 89 S. Ct. 1252). Regardless, both parties seem to agree that market power will be the dispositive element in this case.

Jefferson Parish, 466 U.S. at 14, 104 S. Ct. 1551). Tying arrangements are not unlawful, absent market power in the market for the tying product. *See, e.g., Jefferson Parish*, 466 U.S. at 34-35, 104 S. Ct. 1551 (O'Connor, concurring) ("The Court has never been willing to say of tying arrangements, as it has of price-fixing, division of markets and other agreements subject to *per se* analysis, that they are always illegal, without proof of market power or anticompetitive effect."). Plaintiff proffers no direct evidence that Defendants have market power, such as proof that Defendants restrict their output and charge supracompetitive prices. *See Rebel Oil Co., Inc. v. Atlantic Richfield Co.*, 51 F.3d 1421, 1434 (9th Cir. 1995).

A. Defendants' Patent Alone Does Not Confer Market Power

Plaintiff argues that a patent, standing alone, with no consideration of the products at issue, their substitutes, or a definition of the relevant market, establishes market power in a tying case as a matter of law. The weight of authority is to the contrary. *See, e.g., id.*, 466 U.S. at 37 n. 7, 104 S. Ct. 1551 (O'Connor, J., concurring) ("A common misconception has been that a patent . . . suffice[s] to demonstrate market power . . . . [A] patent holder has no market power in any relevant sense if there are close substitutes for the patented product."); *Northern Pacific Ry. Co. v. United States*, 356 U.S. 1, 10 n. 8, 78 S. Ct. 514, 2 L. Ed. 2d 545 (1958) ("Of course it is common knowledge that a patent does not always confer market power over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the patent privileges is slight."); *In re Independent Service Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325-26 (Fed. Cir. 2000) ("A patent alone does not demonstrate market power."); *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 872 (Fed. Cir. 1997) ("Violation of the antitrust laws always requires . . . market power in a defined relevant market (which may be

broader than that defined by the patent) . . . ."); *A.I. Root Co. v. Computer Dynamics, Inc.*, 806 F.2d 673, 675 (6th Cir. 1986) ("[W]e reject any absolute presumption of market power for copyrighted or patented products . . . ."); *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665, 673 n. 4 (7th Cir. 1985) (Easterbrook, J.); *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 511 (7th Cir. 1982) (Posner, J.) ("[O]f course, not every patent confers market power . . . ."); *Northlake Mktg. & Supply, Inc. v. Glaverbel S.A.*, 861 F. Supp. 653, 662 (N.D. Ill. 1994) ("A common misconception has been that a patent . . . suffices to demonstrate market power."); PHILLIP E. AREEDA, ET AL., ANTITRUST LAW ¶ 1737a (1996) (legal monopoly protected by a patent "is not necessarily or even typically a market monopoly.").

Courts in the Ninth Circuit also reject the idea that a patent or copyright confers market power as a matter of law. *See Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336, 1342-44 (9th Cir. 1984) (copyright creates only a "presumption of economic power"). *See also Mozart Co. v. Mercedes-Benz of North Am., Inc.*, 833 F.2d 1342, 1346 (9th Cir. 1987) (citing *Digidyne, supra*); *Schlafly v. Public Key Partners*, No. 94-20512 SW, 1997 WL 564073, at *4 (N.D. Cal. Aug.29, 1997) ("A patent does not of itself establish a presumption of market power in the antitrust sense.") (citations omitted), *aff'd*, 155 F.3d 565 (Fed. Cir. 1998) ("Mere possession of a patent, or a family of patents, does not establish a presumption of antitrust market power."); *In re Data Gen. Corp. Antitrust Litig.*, 490 F. Supp. 1089, 1112-13 (N.D. Cal.1980) ("The Ninth Circuit has also indicated that the existence of a patent . . . does not ipso facto establish the requisite economic power.") (citing *Rex Chainbelt, Inc. v. Harco Products, Inc.*, 512 F.2d 993, 1002 (9th Cir. 1975)).[8]

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[8] *Grid Sys. Corp. v. Texas Instruments, Inc.*, 771 F. Supp. 1033, 1037 (N.D. Cal.1991) did not hold to the contrary. That case involved the Patent Misuse Reform Act of 1988 and, in a footnote,

Plaintiff attempts to distinguish the instant case by arguing that "patent tying cases" are treated differently than "regular antitrust cases," referring, presumably, to tying cases not involving patents. *See, e.g.*, Plaintiff's Reply Brief at 4. However, Plaintiff cites no case recognizing this distinction. Moreover, courts have rejected the notion that a patent automatically confers market power to its holder in "patent tying cases." *See, e.g., Schlafly*, 1997 WL 564073, at *3-4 (Williams, J.) (no presumption of market power where defendant allegedly tied software products to public key cryptology patent licenses), aff'd, 155 F.3d 565 (Fed. Cir. 1998); *F.B. Leopold Co., Inc. v. Roberts Filter Mfg. Co., Inc.*, 882 F. Supp. 433, 454 (W.D. Pa.1995) (Ambrose, J.) (patent on porous plate, the tying product, insufficient to establish market power), *aff'd*, 119 F.3d 15 (Fed. Cir. 1997); *Chiuminatta Concrete Concepts, Inc. v. Target Products, Inc.*, No. CV 92-1523 LGB (Sx), 1992 WL 465720, at *4 (C.D. Cal. Dec. 2, 1992) (Baird, J.) (patent on certain skid plates, the tying products, insufficient to establish market power in tying claim), aff'd, 19 F.3d 41 (Fed. Cir. 1994).

The U.S. Department of Justice and Federal Trade Commission reject the notion that a presumption of market power arises from a patent in "patent tying cases." "The agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner." Department

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quoted an article written by a practitioner in Des Moines, Iowa opining that "the presumption of economic power, when the tying product is a patent or copyright, survives." *Id.* at 1037 n. 2 (citing Richard Calkins, *Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims*, 38 DRAKE L. REV. 175, 196 (1989)). However, the court cited this article for the proposition that the Patent Misuse Reform Act does not amend the Sherman Act rather than as part of a holding that a patent confers market power.

of Justice and the Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property, Section 5.3., Tying Arrangements, April 6, 1995, at *http://www.usdoj. gov/atr/public/guidelines/ ipguide.htm* (Last modified Sept. 14, 2001).

Plaintiff cites oft-quoted language from *Jefferson Parish*: "[I]f the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." *Jefferson Parish*, 466 U.S. at 11, 104 S. Ct. 1551 (emphasis added). However, the quoted language is of limited benefit to Plaintiff, as *Jefferson Parish* was not a "patent tying case." *See* PHILLIP E. AREEDA, ET AL., ANTITRUST LAW ¶ 1737c (1996) ("When none of the justices says that a patent itself indicates market power, the presumption of power noted in some dicta must rest on either precedent or administrative convenience, although neither explanation persuades."). In fact, elsewhere in its opinion, the Court in *Jefferson Parish* implicitly rejected the idea that a patent necessarily confers market power. "In sum, any inquiry into the validity of a tying arrangement must focus on the market or markets in which the two products are sold, for that is where the anticompetitive forcing has its impact." *Jefferson Parish*, 466 U.S. at 18, 104 S. Ct. 1551.[9]

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[9] In her oft-quoted concurrence, Justice O'Connor recognized that "[a] common misconception has been that a patent . . . suffice[s] to demonstrate market power . . . [because] a patent holder has no market power in any relevant sense if there are close substitutes for the patented product." She was joined by Chief Justice Burger, Justice Powell, and Justice Rehnquist. *Jefferson Parish*, 466 U.S. at 37 n. 7, 104 S. Ct. 1551 (O'Connor, J., concurring). Less than a year later, Justice White, joined by Justice Blackmun, stated that "a particular tying arrangement may have procompetitive justifications, and it is thus inappropriate to condemn such an arrangement without considerable market analysis." *Data General Corp. v. Digidyne Corp.*, 473 U.S. 908, 908, 105 S. Ct. 3534, 87 L. Ed. 2d

Moreover, the Court's decisions both before and after *Jefferson Parish* do not support Plaintiff's argument. Prior to deciding *Jefferson Parish*, the Court declined to hold that a patent establishes market power as a matter of law. *See, e.g., Northern Pacific Ry.*, 356 U.S. at 10 n. 8, 78 S. Ct. 514 ("Of course it is common knowledge that a patent does not always confer market power over a particular commodity."). After deciding *Jefferson Parish*, the Court again rejected the notion that market power may be determined in the abstract. "Legal presumptions that rest on formalistic distinctions rather than actual market realities are generally disfavored in antitrust law. This Court has preferred to resolve antitrust claims on a case-by-case basis, focusing on the 'particular facts disclosed by the record.' [citations omitted]. In determining the existence of market power . . . this Court has examined closely the economic reality of the market at issue." *Eastman Kodak*, 504 U.S. at 466-67, 112 S. Ct. 2072 (citations omitted). Indeed, Plaintiff does not identify a single tying case in which a court has granted the plaintiff summary judgment solely by virtue of the fact that the defendant held a patent on the tying product. Plaintiff also fails to distinguish the volume of precedent and controlling authority rejecting this proposition.[10]

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657 (1985) (order denying writ of certiorari) (White, J., dissenting) (citations omitted). The fact that six of the justices who decided *Jefferson Parish* would reject the notion that a patent confers market power as a matter of law supports the court's conclusion that Plaintiff's reliance upon *Jefferson Parish* is misplaced.

[10] Plaintiff cites several vintage Supreme Court cases in support of its argument, including *United States Steel Corp. v. Fortner Enters.*, 429 U.S. 610, 97 S. Ct. 861, 51 L. Ed. 2d 80 (1977) ("*Fortner II*"); *White Motor Co. v. United States*, 372 U.S. 253, 83 S. Ct. 696, 9 L. Ed. 2d 738 (1963); *United States v. Loew's, Inc.*, 371 U.S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962); *International Salt Co. v. United States*, 332 U.S. 392, 68 S. Ct. 12, 92 L. Ed. 20 (1947). The Court's language concerning presumptions of market

Additionally, Plaintiff cites no facts that would allow this court to draw an inference of market power based upon Defendants' patent. Any presumption of market power must be based upon a discussion of the products at issue, their substitutes, and the relevant markets, which Plaintiff does not provide. *See, e.g., id.* Plaintiff provides no background on the tying product, "printhead systems," or the tied product, "ink." Plaintiff does not discuss consumer demand for Defendants' printhead system and cites no evidence it is sufficiently unique to warrant a presumption of market power. *See United States Steel Corp. v. Fortner Enterprises, Inc.*, 429 U.S. 610, 620-22, 97 S. Ct. 861, 51 L. Ed. 2d 80 (1977) ("*Fortner II*") ("Uniqueness confers economic power only when other competitors are in some way prevented from offering the distinctive product themselves.") (citations omitted). Plaintiff does not discuss whether Defendants' patent acts as a barrier to entry by precluding competitors from marketing the same product as Trident. In fact, Plaintiff admits that at least two other competitors, Markem and Xaar, have offered printheads that are capable of printing bar codes on corrugated materials and kraft paper. Wystma Decl., Ex. C (Admission No. 31); Wystma Decl., Ex. F, Brucker Depo. at 120-21; Defendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 16.

Nor does Plaintiff discuss potential substitutes that existed before Markem and Xaar entered the market. Indeed, Plaintiff concedes that manufacturers can and have used labels to place bar codes on their products. Wystma Decl., Ex. F, Brucker Depo. at 191, 205, 207; Defendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 21. Plaintiff

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power based upon patents arose at a time when genuine proof of power in the market for the tying product was not required. *See* PHILLIP E. AREEDA, ET AL., ANTITRUST LAW ¶ 1737a (1996). However, in *Jefferson Parish*, the Court began demanding real proof of such market power. *See id.*

does not argue that these labeling systems are not suitable substitutes for Defendants' printhead system. Plaintiff does not dispute testimony that Trident's printheads compete with labeling systems. Pullen Depo. at 101; Wystma Decl., Ex. H, Barnett Depo. at 119. Plaintiff does not dispute testimony that Thomas Barnett, president of an OEM selling both labeling systems and Trident printers, had to convince his customers to use printers instead of labeling systems, and lost some of his business to competitors who sold labels. Wystma Decl., Ex. H, Barnett Depo. at 119. Plaintiff does not dispute testimony that labeling systems may even have advantages over printers in terms of quality and reliability. *Id.*

Plaintiff's only discussion of the products at issue, their substitutes, and the relevant markets is cursory, at best, and contains few, if any, citations to the factual record. In essence, Plaintiff requests this court to presume that a patent on a particular type of "widget" demonstrates market power without providing any discussion of "widgets," their substitutes, or the market in which they compete. The court cannot presume market power in the abstract. Without some discussion of the particular facts of this case, this court cannot presume that Defendants' patent prevents OEMs from purchasing other printhead systems or potential substitutes, such as labeling systems.[11]

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[11] Defendants argue that Congress likely abrogated any presumption in tying cases that a patent confers market power upon its holder. Four years after the Supreme Court decided *Jefferson Parish*, Congress passed the Patent Misuse Reform Act of 1988, which provides that a tying arrangement does not constitute patent misuse in the absence of market power. 35 U.S.C. § 271(d)(5). If, as is clear, a patent is insufficient to establish market power in tying cases when considering the "patent misuse defense," it would be anomalous for the same patent to be sufficient to establish market power in the same case for purposes of a counterclaim under the Sherman Act. *See* PHILLIP E. AREEDA, ET AL., ANTITRUST LAW ¶ 1737c (1996) ("[T]he Patent Act amendment effectively abolishes any presumption of market power for patents or patented tying products in antitrust suits as well as in patent misuse doctrine."). The court need not resolve this issue for purposes of deciding the instant motions.

Even were this court to draw an inference of market power based upon Defendants' patent, any such presumption would be inconclusive and rebuttable. *See Jefferson Parish*, 466 U.S. at 11, 104 S. Ct. 1551 ("[I]f the Government has granted the seller a patent or similar monopoly over a product, it is fair to *presume* that the inability to buy the product elsewhere gives the seller market power.") (emphasis added); *United States v. Loew's, Inc.*, 371 U.S. 38, 45-46, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962) ("The requisite economic power is *presumed* when the tying product is patented or copyrighted.") (emphasis added); *Digidyne*, 734 F.2d at 1344 (any presumption of market power based upon copyright would be rebuttable). The undisputed facts in this case rebut any presumption that Defendants' patent gives them market power. It is undisputed that consumers could place bar-coded labels on their products before other competitors manufactured bar-coding printers, and Plaintiff does not establish that the various labeling systems are not proper substitutes for Defendants' printhead system or dispute Defendants' argument that they are. Moreover, while Trident has a patent on its printhead system, at least two other competitors, Markem and Xaar, have designed printheads that can print bar codes on kraft paper. The fact that Markem and Xaar have done so indicates that any barriers to entry, such as R & D and manufacturing costs, are not so great as to prevent competitors from entering the market.[12]

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[12] Plaintiff cites unauthenticated anecdotal evidence that some of Trident's customers were dissatisfied with having to buy Trident's ink. However, Trident's customers' opinions of the tying arrangements are insufficient to establish that Trident had market power.

These undisputed facts would rebut any presumption, if available, that Defendants hold market power by virtue of their patent. As Plaintiff relies upon nothing more than Defendants' patent, it cannot establish that Defendants had market power in the market for the tying product, an omission fatal to its claim that Defendants' tying arrangements are per se violations of the Sherman Act. Moreover, Plaintiff does not argue that Defendants' tying arrangements violate the Sherman Act pursuant to the Rule of Reason. Accordingly, Plaintiff's motion for summary judgment on its claim under Section 1 of the Sherman Act is **DENIED.**[13]

B. Plaintiff Does Not Show Market Power Through Defendants' Market Share

Defendants move for summary judgment on Plaintiff's Section 1 claim, arguing that Plaintiff neither proffers direct evidence that Defendants have market power nor establishes that Defendants have market power by virtue of their market share. The existence of market power may be inferred from the seller's possession of a predominant share of the market. *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 17, 104 S. Ct. 1551, 80 L. Ed. 2d 2 (1984); *United States v. Grinnell Corp.*, 384 U.S. 563, 571, 86 S. Ct. 1698, 16 L. Ed. 2d 778 (1966); *Times-Picayune Publishing Co. v. U.S.*, 345 U.S. 594, 611-13, 73 S. Ct. 872, 97 L. Ed. 1277 (1953). In order to demonstrate market power circumstantially, Plaintiff must: 1) define the relevant product and geographic markets; 2) show that Defendants possess a dominant share of those markets; and 3) show that there are significant barriers to entry and that existing competitors lack the capacity to increase their output in the short run. *See Rebel Oil*, 51 F.3d at 1434.

[13] Plaintiff's claims under the Cartwright Act are predicated upon the same facts as its claims under Section 1 and Section 2 of the Sherman Act. Plaintiff does not address these claims independently of its Sherman Act claims.

1. Plaintiff Fails To Define the Product Market for the Tying Product

Plaintiff proffers no evidence concerning the relevant product market, a prerequisite to establishing that Defendants have market power by virtue of their market share. *See Jefferson Parish*, 466 U.S. at 26, 104 S. Ct. at 1566-67. *See also Brown Shoe Co. v. United States*, 370 U.S. 294, 325-28, 82 S. Ct. 1502, 8 L. Ed. 2d 510 (1962); *Brokerage Concepts, Inc. v. U.S. Healthcare, Inc.*, 140 F.3d 494, 513 (3d Cir. 1998) (Becker, C.J.). "Market definition is crucial. Without a definition of the relevant market, it is impossible to determine market share." *Rebel Oil*, 51 F.3d at 1434. *See also Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177-78, 86 S. Ct. 347, 15 L. Ed. 2d 247 (1965) ("Without a definition of [the] market, there is no way to measure [Defendants'] ability to lessen or destroy competition"). Market definition is frequently dispositive in antitrust litigation. *See, e.g., AD/SAT v. Associated Press*, 181 F.3d 216, 225 (2d Cir. 1999).[14]

A product market includes the product at issue and its substitutes. In order to define a product market, a party must determine cross-elasticity of demand, or which products are reasonably interchangeable with the product at issue from the perspective of consumers. *See Brown Shoe*, 370 U.S. at 325, 82 S. Ct. 1502. *See also Rothery Storage & Van Co. v. Atlas Van Lines, Inc.*, 792 F.2d 210, 218 (D.C. Cir. 1986) (Bork, J.); *Hornsby Oil Co., Inc. v. Champion Spark Plug Co., Inc.*, 714 F.2d 1384, 1393 (5th Cir. 1983). Products need not be identical to be part of the same market. *United States v. Continental Can Co.*, 378 U.S. 441, 449-50, 84 S. Ct. 1738, 12 L.

[14] Plaintiff's complaint asserts that the relevant markets are "commercial ink jet inks, patented containers for said commercial ink jet inks and patented printing systems in which said commercial ink jet inks are used." Fourth Amended Complaint ¶ 19. Plaintiff proffers no evidence or argument in support of this assertion.

Ed. 2d 953 (1964). "If consumers view the products as substitutes, the products are part of the same market." *Rebel Oil*, 51 F.3d at 1435. Whether products are substitutes for the product at issue will depend upon their prices, uses, and qualities. *United States v. E.I. du Pont de Nemours & Co.*, 351 U.S. 377, 395, 76 S. Ct. 994, 100 L. Ed. 1264 (1956). Defining a product market also entails consideration of potential competitors who may enter the market, viz., cross elasticity of supply. *See Brown Shoe*, 370 U.S. at 325, 82 S. Ct. 1502. "[M]arket definition must look at all relevant sources of supply, either actual rivals or eager potential entrants to the market." *Kaplan v. Burroughs Corp.*, 611 F.2d 286, 292 (9th Cir. 1979) (citations omitted).

Plaintiff proffers no evidence concerning the relevant product market in its motion, its opposition to Defendants' motion, or its supplemental briefs, which is fatal to its Section 1 claim. Plaintiff cannot establish that Defendants have a predominant share of "the market" without defining the relevant product market. Defendants may have a large market share if the tying product market is defined as "piezoelectric ink jet printhead systems that use high-quality ink to print bar codes on kraft paper." Conversely, Defendants would have a smaller market share if the tying product market was comprised of any product that could be used to place a bar code on a retail product, such as labeling machines that print bar-coded labels, which consumers indisputably use for such a purpose. Defendants' market share would also be smaller if the tying product market were defined as "patented printing systems." Moreover, Defendants' alleged market power would be further diminished if numerous potential competitors were poised to enter the market.

Plaintiff argues that market definition is irrelevant in a "patent tying case." In Plaintiff's view, "What do cross-elasticity of demand or cross-elasticity of supply have to do

with a patent tying case?" Plaintiff's Opposition Brief at 1.[15] At oral argument, Plaintiff's counsel argued that the patent itself defines the relevant market in tying cases. However, a patent does not necessarily define a product market. *See, e.g., Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 872 (Fed. Cir. 1997) ("[V]iolation of the antitrust laws always requires . . . market power in a defined market (which may be broader than that defined by the patent) . . . .").

Plaintiff also briefly argues that the relevant product market is not the entire market for printhead systems, but is defined exclusively by Trident's patented printhead system. Plaintiff argues that Defendants have market power "in their particular type of system." Plaintiff's Opposition Brief at 3. This may be true. However, all manufacturers have a "natural monopoly" over their own brand of product. *See, e.g., Nobel Scientific Indus., Inc. v. Beckman Instruments, Inc.*, 670 F. Supp. 1313, 1323 (D. Md. 1986), *aff'd*, 831 F.2d 537 (4th Cir. 1987) ("The 'natural monopoly' of a manufacturer in his own products is not an antitrust violation."). The pertinent issue is whether Defendants have market power in a market that includes: 1) both their "particular type of system" *and* all reasonable substitutes, as judged from the perspective of the consumer; and 2) all relevant sources of supply from actual competitors and potential entrants to the market.

Plaintiff cites no evidence or authority in support of its argument that the product market includes only Trident's patented printhead system. Plaintiff does not discuss or analyze

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[15] Undertaking no analysis, Plaintiff asserts that "[b]ecause Trident held patents, no one else could make that system. Accordingly, there was zero elasticity of supply in the relevant (tying product) market during the relevant time period." Plaintiff's Supplemental Brief, March 28, 2002, at 5. However, Plaintiff's bald assertion does not account for other printheads that can print bar codes on corrugated materials and kraft paper, as well as close substitutes, such as labeling machines.

the range of competing substitutes for Defendants' printhead system, a prerequisite to market definition. Nor does Plaintiff consider potential competitors who could enter the relevant market. Plaintiff argues only that because it makes ink specifically for Defendants' printhead systems, the market –from Plaintiff's perspective – is limited exclusively to Defendants' product. However, Plaintiff's perspective is not relevant in defining the product market. *See, e.g., Brown Shoe*, 370 U.S. at 325, 82 S. Ct. 1502; *Continental Can Co.*, 378 U.S. at 449-50, 84 S. Ct. 1738; *E.I. du Pont de Nemours*, 351 U.S. at 395, 76 S. Ct. 994; *Rebel Oil*, 51 F.3d at 1435; *Rothery Storage*, 792 F.2d at 218; *Hornsby Oil*, 714 F.2d at 1393; *Kaplan*, 611 F.2d at 292. The critical issue in a Section 1 tying case is whether consumers are being forced to buy the tied product by virtue of a defendant's market power in the market for the tying product. Accordingly, the relevant consideration is whether substitutes are available to consumers of Defendants' product. *See, e.g., Kaplan*, 611 F.2d at 292 ("In defining the relevant market, the court must look beyond the particular commodity produced by an alleged monopolist because the relevant product market for determining monopoly power, or the threat of monopoly control, depends upon the availability of alternative commodities for buyers."); *Columbia Metal Culvert v. Kaiser Aluminum & Chem. Corp.*, 579 F.2d 20, 30 (3d Cir. 1978) ("[I]t is not the perceptions of manufacturers but those of consumers which are most salient in the determination of market boundaries."). The mere fact that Plaintiff manufactures ink for Defendants' printhead system – the tying product – does not mean there are no substitutes or competitors in the tying product market. Whether Plaintiff's ink – the tied product – is designed for use with Defendants' printhead system is not relevant in defining the tying product market.[16]

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[16] Plaintiff's argument that the market is defined by Defendants' printhead system is more relevant to its claim that Defendants attempted to monopolize the market for ink. *See Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 482-83, 112 S. Ct. 2072, 119 L. Ed. 2d 265 (1992) ("Because service and parts for Kodak equipment are not interchangeable with other manufacturers' service and parts, the relevant market from the Kodak equipment owner's perspective is composed of only those companies that service Kodak machines."). This argument is addressed in *Section IV.1.*

Plaintiff also attempts to define the market by citing a series of marketing materials and investment reports discussing "the market." For example, Trident's "1998 Marketing Plan" references the "impulse ink jet printhead market." O'Connor Decl., Ex. 2. A small cap investment report refers to Trident as being in the "emerging impulse ink jet market." O'Connor Decl., Ex. 3. An investment analyst's presentation to Trident's board of directors referred to the "overall ink jet market." O'Connor Decl., Ex. 4. However, for antitrust purposes, the relevant market cannot be defined by a defendant's marketing materials or from the opinions of investment analysts. "For antitrust purposes . . . the relevant market is determined by reasonable interchangeability, as evidenced by cross-elasticity of demand and supply, not by laymen's comments made in a competitive business environment." *AD/SAT v. Associated Press*, 920 F. Supp. 1287, 1297 n. 7 (S.D.N.Y. 1996), aff'd, 181 F.3d 216 (2d Cir. 1999) (dismissing "internal documents" in which Defendants' officers stated they hope to "capture" a certain market.). *See also Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772, 782-84 (5th Cir. 1999) (court disregarded evidence that Defendants' officers, employees, customers, and internal documents defined market in certain way, focusing instead on "market realities"); *Nobel Scientific Indus.*, 670 F. Supp. at 1318-19, *aff'd*, 831 F.2d 537 (4th Cir. 1987) ("Product markets for antitrust analysis depend on cross-elasticity and interchangeability, and so the fact that a company may refer to a 'market' does not necessarily mean that its reference will be to a market for

the purposes of the Sherman Act."). "Construction of a relevant economic market or a showing of monopoly power in that market cannot . . . be based upon lay opinion testimony." *American Key Corp. v. Cole Nat. Corp.*, 762 F.2d 1569, 1579-80 (11th Cir. 1985). *See also Colsa Corp. v. Martin Marietta Servs., Inc.*, 133 F.3d 853, 855 n. 4 (11th Cir. 1998) (court rejected testimony of two witnesses about market definition as "lay opinion testimony"); *Morgan, Strand, Wheeler & Biggs v. Radiology, Ltd.*, 924 F.2d 1484, 1490 (9th Cir. 1991) (court rejected testimony of two witnesses about market definition because there was "no evidence that those two principals were experts qualified to opine on a highly technical economic question.").

Plaintiff cannot define the market without examining the range of substitutes for Defendants' product from the perspective of OEMs and end users, the consumers of Defendants' printhead systems. Plaintiff also cannot define the market without considering potential sources of supply for these consumers, viz., whether firms currently manufacture or could begin manufacturing the same product or close substitutes, like labeling machines. Plaintiff must proffer "market data, figures or other relevant material adequately describing the nature, cost, usage, or other features of competing products" to determine the bounds of the relevant market. *Bhan v. NME Hosps., Inc.*, 669 F. Supp. 998, 1018 (E.D.Cal.1987), aff'd, 929 F.2d 1404 (9th Cir. 1991). Plaintiff's failure to address the range of substitutes that exist for Defendants' patented printhead systems prevents it from defining the relevant product market and precludes it as a matter of law from establishing market power by virtue of Defendants' market share.

2. *Plaintiff Fails To Define the Geographic Market for the Tying Product*

Plaintiff proffers no evidence concerning the relevant geographic market, also a prerequisite to calculating Defendants' market share. A geographic market is the area in which the product and its reasonably interchangeable substitutes are traded. *T. Harris Young & Assocs., Inc. v. Marquette Elecs., Inc.*, 931 F.2d 816, 823 (11th Cir. 1991). Geographic market definition is based upon the market area in which the seller and its competitors operate and consumers "can practicably turn for supplies." *United States v. Philadelphia Nat'l Bank*, 374 U.S. 321, 357, 83 S. Ct. 1715, 10 L. Ed. 2d 915 (1963). Defining a geographic market requires an analysis of "[p]rice data and such corroborative factors as transportation costs, delivery limitations, customer convenience and preference, and the location and facilities of other producers and distributors." *T. Harris Young*, 931 F.2d at 823.

Plaintiff provides no evidence or analysis of the relevant geographic market. Plaintiff merely asserts that the geographic market for the tying product is the United States and Canada, which Defendants' dispute. However, Plaintiff must proffer some credible evidence concerning the geographic market at issue. *See, e.g., Morgan, Strand, Wheeler & Biggs*, 924 F.2d at 1490 (court rejected Plaintiff's asserted geographic market definition, as it was supported by no evidence and only lay witness testimony). Plaintiff's failure to develop any evidence concerning the relevant geographic market definition is fatal to its case.

3. *Plaintiff Fails To Show that Defendants Possess a Dominant Market Share*

Plaintiff makes no attempt to calculate Defendants' market share or to show that Defendants control a dominant share of the tying product market. Plaintiff proffers no economic evidence or quantitative data in support of its allegations. Plaintiff also concedes that it retained no experts for purposes of defining the relevant market or determining Defendants' market share. The fact that Plaintiff makes no attempt to define the market makes it impossible for Plaintiff

to prove that Defendants possess sufficient market share in the tying product to exercise market power.[17]

Plaintiff attempts to create a triable issue of fact by quoting portions of Trident's president's deposition and Trident's marketing and investment materials, which purportedly evidence Defendants' market power. Plaintiff also proffers documents suggesting that Defendants sell a certain percentage of the printheads and spare parts in existence. As stated above, however, without a definition of the relevant market, such out-of-context statements are meaningless.[18]

Plaintiff's anecdotal evidence from marketing and investment materials is unpersuasive for the same reason. Advertisements that Trident has a dominant "market position" or is a leader in the "overall ink jet market," "impulse ink jet printhead market," "emerging impulse ink jet market," "piezo-electric ink jet" market, or "ink jet bar coding" market

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[17] Although the Supreme Court has identified potential sources of market power, it has not clearly articulated a standard as to what constitutes sufficient economic power to force a tie. *See* Christopher R. Leslie, *Unilaterally Imposed Tying Arrangements and Antitrust's Concerted Action Requirement*, 60 OHIO ST. L.J. 1773, 1830-36 (1999). A persuasive argument may be made that "[t]he most appropriate test to determine whether any individual has sufficient market power to force consumers to accept a tie-in is the 'monopoly power' standard of Section Two jurisprudence." *Id.* at 1831. The Court might well agree with this proposition, as it has previously acknowledged that "the essence of illegality in tying agreements is the wielding of monopolistic leverage." *Times-Picayune Publ'g*, 345 U.S. at 611, 73 S. Ct. 872. Regardless, Plaintiff cannot establish Defendants possess market power because it does not define the relevant market.

[18] Thus, even assuming Trident had over 90% of the "piezo ink jet engine[s]" for "industrial printing," as Plaintiff contends, Plaintiff has not, in fact, established that this is the relevant market for purposes of the Sherman Act.

evidence nothing, because Plaintiff does not establish that these labels accurately describe the relevant product market for purposes of an antitrust analysis. By not defining the relevant market, Plaintiff cannot prevail as a matter of law. Moreover, non-economic, qualitative descriptions of market success are insufficient to establish that an antitrust defendant exercises market power. *See, e.g., Colsa Corp.*, 133 F.3d at 855 n. 4 ("[A] showing of monopoly power in that market cannot . . . be based upon lay opinion testimony."); *Roy B. Taylor Sales, Inc. v. Hollymatic Corp.*, 28 F.3d 1379, 1383-87 (5th Cir. 1994) ("[G]eneral descriptions of market success" indicating defendant's product was "market leader," as well as the "lead," "premiere," "flagship," and "dominant" product insufficient to establish market power because they did not establish "share of the market [defendant] controlled or the nature of the competition [defendant] faced."); *Forro Precision, Inc. v. International Bus. Machs. Corp.*, 673 F.2d 1045, 1059 (9th Cir. 1982) ("Without the benefit of expert testimony or other credible evidence to support an inference of market power, . . . any such inference would be sheer speculation."). Accordingly, Plaintiff cannot establish that Defendants possess a dominant share of the market.

4. Plaintiff Identifies no Barriers to Entry

Plaintiff does not demonstrate that the market has significant barriers to entry or that existing competitors lack the capacity to increase their output in the short run. *See Rebel Oil*, 51 F.3d at 1434. Plaintiff argues that the market has barriers to entry, a prerequisite to establishing market power through a defendant's market share. *See id.* Plaintiff cites a Trident document stating:

> "Barriers to entry of a competitor into Trident's markets are considerable. Our technology required an initial investment of approximately $20m and at least $10m of ongoing R & D and process development. This work resulted in an extensive portfolio of patents and confiden-

tial know-how. All of the impulse ink jet printheads on the market today required similar or higher investments."

O'Connor Decl., Ex. 8. Without a proper definition of the market, however, this document cannot establish that the relevant product market *in its entirety* has barriers to entry. Plaintiff's proffered evidence likely establishes only that a competitor wishing to design the same product as Defendants (*i.e.*, printers that print bar codes), as opposed to its potential substitutes (*i.e.*, labeling systems), faces significant costs. However, it is undisputed that potential barriers to entry, including Defendants' patent, did *not* prevent Markem and Xaar from developing a printhead that performs the same task as Defendants' printhead. Moreover, Plaintiff proffers no evidence that those who manufacture a comparable product or potential substitutes lack the capacity to increase their output. In short, Plaintiff cannot establish that the relevant market – however defined – has barriers to entry.

5. Conclusion

With respect to Plaintiff's claim of unlawful tying in violation of Section 1 of the Sherman Act, Plaintiff's only effort to establish Defendants' market power is by virtue of their patent. Plaintiff cannot, as a matter of law, establish Defendants' market power by virtue of their market share, as Plaintiff makes no attempt to define the product market or the geographic market. Nor does Plaintiff cite any unique element of Defendants' product that would support a finding of market power. *See, e.g., United States Steel Corp. v. Fortner Enterprises, Inc.*, 429 U.S. 610, 620-22, 97 S. Ct. 861, 51 L. Ed. 2d 80 (1977) ("*Fortner II*"). It is unlikely that such uniqueness exists in this case, as Markem and Xaar were able to develop printheads that perform the same task as Defendants' printhead.

Nor can Plaintiff create a triable issue of fact by citing a series of non-economic, qualitative marketing and investment materials which refer generally to Trident's position in "the

market." *Alcatel USA*, 166 F.3d at 782-84; *Colsa Corp.*, 133 F.3d at 855 n. 4; *Roy B. Taylor Sales*, 28 F.3d at 1383-87. Simply put, Plaintiff proffers no evidence that would establish Defendants' market power in the as yet undefined market for the tying product.

In sum, Plaintiff proffers no evidence from which a reasonable trier of fact could define the relevant product and geographic markets. Nor does Plaintiff proffer any evidence that Defendants possess market power by virtue of their market share or that the market for the tying product contains barriers to entry. Accordingly, the court **GRANTS** Defendants' motion for summary judgment on Plaintiff's claim under Section 1 of the Sherman Act.

IV. PLAINTIFF'S SECTION TWO CLAIM DEFENDANTS' ALLEGED MONOPOLIZATION OF INK

Defendants also move for summary judgment on Plaintiff's claim that Defendants monopolized, attempted to monopolize, and conspired to monopolize "the market for commercial ink jet inks" in violation of Section 2 of the Sherman Act.[19] Fourth Amended Complaint ¶ 19. "The offense of monopoly under § 2 of the Sherman Act has two elements: 1) the possession of monopoly power in the relevant market and 2) the willful acquisition or maintenance of

---

[19] Plaintiff did not move for summary judgment on its Section 2 claim or proffer any evidence in support of its allegations that Defendants monopolized, attempted to monopolize, or conspired to monopolize the tying product market or the market for ink containers. Moreover, as discussed above, Plaintiff cannot establish that Defendants had "monopoly power" in the market for the tying product for purposes of Section 2 of the Sherman Act, because it cannot make the lesser showing that Defendants had "market power" in any defined market for purposes of section 1 of the Sherman Act. *See Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 481, 112 S. Ct. 2072, 119 L. Ed. 2d 265 (1992).

that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident." *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 480-81, 112 S. Ct. 2072, 119 L. Ed. 2d 265 (1992) (citing *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71, 86 S. Ct. 1698, 16 L. Ed. 2d 778 (1966)). In order to establish that Defendants attempted to monopolize the ink market, Plaintiff must demonstrate that Defendants had a "dangerous probability of success." *See Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447, 454-60, 113 S. Ct. 884, 122 L. Ed. 2d 247 (1993).

1. Plaintiff Proffers no Evidence Defining the Relevant Product Market

Citing no authority and undertaking little analysis, Plaintiff argues that the relevant product market is defined by Defendants' patented printhead system. In other words, Plaintiff contends that Defendants monopolized, attempted to monopolize, and conspired to monopolize the market for "ink . . . which is used in Defendants' patented piezoelectric printing system, including ink which can be used to refill Defendants' patented containers." Fourth Amended Complaint ¶ 21; Wystma Decl., Ex. C. (Admission No. 58) ("The market is ink for use in conjunction with Trident's piezoelectric printhead system.").

A single brand of a product can be a relevant market for purposes of the Sherman Act. *See Eastman Kodak*, 504 U.S. at 482-83, 112 S. Ct. 2072. However, such a market definition can be determined "only after a factual inquiry into the 'commercial realities' faced by consumers." *Id.* at 482, 112 S. Ct. 2072. As discussed in Section III.B.1, product market definition requires an analysis of both cross-elasticity of demand and cross-elasticity of supply. *Brown Shoe Co. v. United States*, 370 U.S. 294, 325, 82 S. Ct. 1502, 8 L. Ed. 2d 510 (1962). The record in the instant case suggests that Plaintiff's proposed market definition was derived not from economic analysis of cross-elasticity of supply and cross-elasticity of demand, but rather from a report prepared by Plaintiff's vice president in a few hours. See Wystma Decl., Ex. B, Strong Depo. at 46-47, 112-16; Wystma Decl., Ex. J at 122; Wystma Decl., Ex. N; Plaintiff's Response to Defendants' Statement of Uncontroverted Facts, December 4, 2001, at ¶ 10. Indeed, Plaintiff concedes that its expert "did not perform an antitrust analysis at all." Plaintiff's Response to Defendants' Statement of Uncontroverted Facts, December 4, 2002, at ¶ 10.

Nevertheless, the record contains sufficient facts to determine the cross-elasticity of demand. It is undisputed that Trident's printhead system uses a specially-formulated ink. Trident's printhead system cannot use ink formulated for other printers, and other printers cannot use ink that is specially formulated for Trident's system. Accordingly, the relevant product market from the consumer's perspective likely contains only ink that is specially formulated for Trident printhead systems. *See Eastman Kodak*, 504 U.S. at 482-83, 112 S. Ct. 2072 ("Because service and parts for Kodak equipment are not interchangeable with other manufacturers' service and parts, the relevant market from the Kodak equipment owner's perspective is composed of only those companies that service Kodak machines.").

However, "defining a market on the basis of demand considerations alone is erroneous. A reasonable market definition must also be based upon 'supply elasticity.'" *Rebel Oil Co., Inc. v. Atlantic Richfield Co.*, 51 F.3d 1421, 1436 (9th Cir. 1995) (citations omitted). "If the producers of product X can readily shift their production facilities to produce product Y, then the sales of both should be included in the relevant market." *Id.* In the instant case, Plaintiff proffers no evidence, analysis, or discussion of Trident's actual competitors, or the market's potential entrants. Citing no authority, Plaintiff contends that cross-elasticity of supply is not relevant in this case, and that the Ninth Circuit's holding to the contrary

in *Rebel Oil* applies only to predatory pricing cases. *See* Plaintiff's Supplemental Brief, March 28, 2002, at 4-5. However, a plaintiff must define the product market in a monopolization case predicated upon a defendant's market share, requiring an analysis of cross-elasticity of supply. *See, e.g., Brown Shoe*, 370 U.S. at 325, 82 S. Ct. 1502.

The record reflects that there are numerous actual and potential suppliers of ink for Trident's system. Various ink manufacturers have offered ink for use in Trident's printhead system, including Plaintiff, Graphic Controls, Squid Ink, Renewable Resources, and ATG. *See, e.g.*, Wystma Decl., Ex. C (Admission No. 26); Brucker Depo., July 24, 2000, at 145-46; Brucker Depo., July 25, 2000, at 97; O'Connor Decl., February 11, 2002, Exs. 5, 6, 36; Defendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 15. Plaintiff also concedes that ink manufacturers could convert their facilities to manufacture ink for Trident's system. *See* Brucker Depo., July 24, 2000, at 146; Brucker Depo., July 25, 2000, at 107-08. By not addressing the cross-elasticity of supply, Plaintiff cannot, as a matter of law, define the relevant product market, an omission fatal to its Section 2 claims for monopolization and attempted monopolization.[20]

2. Plaintiff Proffers no Evidence Defining the Relevant Geographic Market

Plaintiff's failure to proffer evidence or analysis concerning the relevant geographic market is also fatal to its Section 2 claim. As discussed above, geographic market for antitrust purposes is the market area in which the seller and its competitors operate and consumers "can practicably turn for supplies." *United States v. Philadelphia Nat'l Bank*, 374 U.S. 321, 357, 83 S. Ct. 1715, 10 L. Ed. 2d 915 (1963). Geographic market definition requires analyzing, *inter alia*, "[p]rice data and such corroborative factors as transportation costs, delivery limitations, customer convenience and preference, and the location and facilities of other producers and distributors." *T. Harris Young & Assocs., Inc. v. Marquette Elecs., Inc.*, 931 F.2d 816, 823 (11th Cir. 1991).

[20] As Trident points out, end users are not bound by the tying arrangements between Trident and the OEMS. *See* Defendants' Supplemental Brief, March 22, 2002.

Plaintiff does not analyze or discuss the relevant geographic market for the ink at issue, and the record contains no evidence from which the geographic market could be defined. Nor is the geographic market in this case clearly defined as the United States and Canada, as Plaintiff contends and Defendants dispute. Market definition cannot rely entirely upon bald assertions or lay opinion, and Plaintiff must proffer some credible evidence concerning the geographic market at issue. *See, e.g., Morgan, Strand, Wheeler & Biggs v. Radiology, Ltd.*, 924 F.2d 1484, 1490 (9th Cir. 1991) (court rejected Plaintiff's asserted geographic market definition, as it was supported by no evidence and only lay witness testimony). By providing no evidence or analysis of the relevant geographic market definition, Plaintiff provides no basis for denying Defendants' motion for summary judgment of its claims under Section 2 of the Sherman Act.[21]

3. Plaintiff Does Not Establish that Defendants Possessed Monopoly Power

In the absence of evidence from which a reasonable trier of fact could define the market, Plaintiff cannot establish that Defendants possessed monopoly power through their market share. In order to establish monopolization by virtue of Defendants' market share, Plaintiff must show that Defendants' market share effectively confers monopoly power, viz., the

[21] Claims for attempted monopolization also require that the plaintiff define the product and geographic markets. *Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447, 459-60, 113 S. Ct. 884, 122 L. Ed. 2d 247 (1993).

power to raise prices and restrict output. *See Eastman Kodak*, 504 U.S. at 464, 112 S. Ct. 2072. Although courts have not defined an exact percentage of market share that necessarily confers monopoly power, Judge Learned Hand recognized that "[90% market share] is enough to constitute a monopoly; it is doubtful whether sixty or sixty-four percentage would be enough; and certainly thirty-three percent is not." *United States v. Aluminum Co. of Am.*, 148 F.2d 416, 424 (2d Cir. 1945).

Plaintiff proffers no relevant evidence that Defendants' possessed monopoly power in any defined market. Plaintiff, who concedes it did not retain expert witnesses to analyze the markets or determine Defendants' market share, attempts to prove that Defendants possessed monopoly power by citing to a series of statements contained in Trident's marketing materials, strategic business plans, and investment reports. *See* O'Connor Decl., February 11, 2002, Ex. 8 ("Presentation to the Board of Directors" by securities analyst), Ex. 9 (securities analyst's opinion whether to invest in Trident), Ex. 10 (Trident's "Strategic Business Plan"), Ex. 11 ("Trident International 1998 Marketing Plan"), Ex. 12 ("Institutional Marketing Materials" prepared by Prudential Securities for use in Trident's initial public offering), Ex. 13 (Trident's prospectus, provided to potential investors), Ex. 14 ("Monthly Management Report" containing no quantitative data), Ex. 15 (internal memo discussing cost of designing printheads), Ex. 16 (securities analyst's opinion whether to invest in Trident), Ex. 17 (Prudential Securities' opinion whether to invest in Trident), Ex. 18 (presentation to Trident's board of directors). However, as discussed in Section III.B.3, Plaintiff cannot rely upon qualitative promotional materials, in lieu of economic analysis or quantitative evidence, to establish that Defendants possessed monopoly power. *Forro Precision, Inc. v. International Bus. Machs. Corp.*, 673 F.2d 1045, 1059 (9th Cir. 1982) ("Without the benefit of expert testimony or other credible evidence to support an inference of market

power, . . . any such inference would be sheer speculation."). *See also Colsa Corp. v. Martin Marietta Servs., Inc.*, 133 F.3d 853, 855 n. 4 (11th Cir. 1998) ("[A] showing of monopoly power in that market cannot . . . be based upon lay opinion testimony."); *Roy B. Taylor Sales, Inc. v. Hollymatic Corp.*, 28 F.3d 1379, 1383-87 (5th Cir. 1994) ("[G]eneral descriptions of market success" indicating defendant's product was "market leader," as well as the "lead," "premiere," "flagship," and "dominant" product insufficient to establish market power because they did not establish "share of the market [defendant] controlled or the nature of the competition [defendant] faced.").

Moreover, in the absence of a defined market, qualitative or quantitative estimates of market share are meaningless. Thus, a securities analyst's representation that "Trident is the leader in piezo-electric ink jet" or that "[Trident] derives [a] substantial portion of its revenues from sale of consumables" reveals nothing about market share. *See e.g., id.*, Ex. 8. Nor do documents purportedly showing that Trident sold approximately 80% of high-resolution ink between 2000 and 2001 assist in establishing Defendants' market share. *See id.*, Exs. 5-6. Although this percentage may represent Trident's ink sales, this figure does not accurately reflect Trident's *market share*, as it does not account for cross-elasticity of supply. As Plaintiff concedes, ink manufacturers could convert their facilities to manufacture high-resolution ink, undermining its argument that Trident acquired monopoly power or had a "dangerous probability of success" in doing so. *See* Brucker Depo., July 24, 2000, at 146; Brucker Depo., July 25, 2000, at 107-08. Indeed, various manufacturers offer ink for use in Trident's printhead system, including Plaintiff, Graphic Controls, Squid Ink, Renewable Resources, and ATG. *See, e.g.*, Wystma Decl., Ex. C (Admission No. 26); Brucker Depo., July 24, 2000, at 145-46; Brucker Depo., July 25, 2000, at 97; O'Connor Decl., February 11, 2002, Exs. 5,

6, 36; Defendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 15.[22]

In short, Plaintiff proffers no evidence of Trident's market share in any defined market. Plaintiff presents no evidence that Defendants had either "monopoly power" or a "dangerous probability of success" of monopolizing any such market by virtue of their market position. Nor does Plaintiff proffer any evidence of a conspiracy to monopolize any defined market.[23]

V. CONCLUSION

Based upon the foregoing, Plaintiff's motion for summary judgment of its second claim for violations of Section 1 of the Sherman Act is **DENIED**. Defendants' motion for summary judgment of Plaintiff's second and third claims for violations of Section 1 and Section 2 of the Sherman Act, respectively, is **GRANTED**.

IT IS SO ORDERED

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[22] Plaintiff complains that Trident does not warranty its printhead system for use with third-party inks. However, merely limiting or voiding a product's warranty based upon consumer use of third-party consumables does not violate the antitrust laws. *See, e.g., Marts v. Xerox, Inc.*, 77 F.3d 1109, 1112 (8th Cir. 1996) (Xerox's policy of conditioning its photocopiers' service warranties upon consumers using Xerox cartridges did not violate antitrust laws).

[23] Plaintiff argues that Defendants' tying arrangements with the OEMs constitute a barrier to entry. The court need not address potential barriers to entry facing a competitor who wishes to sell ink for use in conjunction with Trident's printhead system (*i.e.*, Defendants' tying arrangements, Defendants' alleged misrepresentations that third-party inks corrode Trident's printheads, or the fact that Trident's printheads use single-use ink containers), because Plaintiff's failure to define either the product market or the geographic market is fatal to its case.

APPENDIX C

United States District Court,
C.D. California.

INDEPENDENT INK, INC., a California corporation,
Plaintiff,

v.

TRIDENT, INC., a Connecticut corporation;
ILLINOIS TOOL WORKS, INC.; and DOES 1 THROUGH 50,
Defendants.

No. SACV03-899-CJC (CWx).

December 22, 2003.

JUDGMENT

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

(1) Judgment in favor of defendants and against plaintiff is hereby entered based upon the Court's October 2, 2002 Order granting defendants' motion for summary judgment on the State and Federal Antitrust Claims alleged in the Second and Third Claims of the Fourth Amended Complaint ("Antitrust Claims") in United States District Court for the Central District of California, Civil No. SACV 03-0899 CJC/CWx (formerly Civil No. 98-6686-NM/CWx) (the "Action").

(2) All remaining claims and counterclaims of the Parties other than the Antitrust Claims ("Remaining Claims") are dismissed with prejudice.

DATED: 12/22/03

/s/ CORMAC J. CARNEY
HONORABLE CORMAC J. CARNEY
UNITED STATES DISTRICT COURT
JUDGE

(5)

Supreme Court, U.S.
FILED
MAY 4 - 2005
OFFICE OF THE CLERK

No. 04-1329

IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS INC., *et al.*,

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF IN OPPOSITION

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QUESTIONS PRESENTED

Whether, in an action under Section 1 of the Sherman Act, 15 U.S.C. § 1, alleging that the defendant engaged in unlawful tying by conditioning a patent license on the licensee's purchase of a non-patented good, the plaintiff must prove as part of its affirmative case that the defendant possessed market power in the relevant market for the tying product, or market power instead is presumed based solely on the existence of the patent on the tying product, and whether the presumption is rebuttable or absolute.

STATEMENT PURSUANT TO RULE 29.6

Respondent, Independent Ink, Inc., has no parent corporation and no publicly held company owns 10% or more of its stock.

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INTRODUCTION

What the Defendants are essentially asking this Court to do is to undertake the rewriting of Section 1 of the Sherman Act as it relates to the doctrine of patent tying. This Court has interpreted that statute as it relates to the prohibition on patent tying, consistently, in case after case since 1946 when it first enunciated the doctrine in *International Salt Co. v. United States*, 332 U.S. 392 (U.S., 1947) and reaffirmed it in *United States v. Loew's Inc.*, 371 U.S. 38 (1962). In fact, this Court had the opportunity to expressly review this doctrine in the case of *Digidyne Corp. v. Data General Corp.*, 734 F.2d 1336 (9th Cir., 1984), *cert. denied*, 473 U.S. 908 (1985) but denied cert at that time.[1]

It is fundamental that, particularly, in issues relating to statutory construction, this Court is to follow *stare decisis*

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1. Defendants have attempted to rely upon statements from the dissent in the denial of the petition for cert in that case. Overlooking, for the moment, the inappropriateness of relying on a dissenting opinion in a denial of cert for any purpose the fact of the matter is that the dissenters, in that opinion were addressing a completely different issue. Anyone skilled in the art of software copyrights, understands, that unlike in a patent situation, a copyright may not rely upon functionality. Where software copyrights are concerned, it is well known, to one skilled in the art, that numerous programs may be written which provide the identical functionality. All that is necessary is a basic understanding of Boolian algebra. Accordingly, it may be that in the area of software copyrights the presumption of market power, stemming from unique functionality, may be something which the Court may wish to review at some future time. Regardless, that is the issue with which the dissent was dealing in that opinion. Nowhere in that dissent was there any indication that those justices had any interest, whatsoever, in revisiting the doctrine of tying as it relates to patents, which do, in fact, involve unique functionality.

and adhere to its precedents. *Patterson v. McLean Credit Union*, 491 U.S. 164, 172-3 (U.S., 1989), *Square D Co. v. Niagara Frontier Tariff Bureau*, 476 U.S. 409, 424 (U.S., 1986), *Illinois Brick Co. v. Illinois*, 431 U.S. 720, 736 (U.S., 1977).

In this case, a reversal of the patent tying doctrine would not only be presumptively wrong i.e., it violates the principle that Congress is presumed to have agreed with the Court's decision if it has not changed the law to overturn or modify the Court's decision, but would, in actual fact, be wrong. That is because this doctrine has been subjected to numerous attempts in the Congress to reverse this Court's decisions on patent and copyright tying.

In 1989, the House refused to pass the "Intellectual Property Antitrust Protection Act of 1989". In 1995, it refused to pass the "Intellectual Property Antitrust Protection Act of 1995". Congress rejected two similar proposals in the 99th Congress and four by the 100th Congress. In 2001, the opponents of the doctrine tried again. The subcommittee on Courts, the Internet, and Intellectual Property of the House Judiciary Committee held hearings on whether to repeal the doctrine. That effort also went nowhere. In opposing changing the doctrine, Representative Rick Boucher of Virginia stated:

> Mr. Boucher. Let me simply conclude my time here by saying something. I really don't perceive a need to adopt this legislation, and let me just put that belief on the record here. I am concerned that if we pass this in the absence of a clear need to do it, it is a change to the Nation's antitrust laws.

> We make those changes very sparingly and for good reason. Because, when we make a change, it is going to be interpreted by the courts to mean something. And if the Supreme Court, which already says there is no presumption in the absence of a showing of lack of substitutable product, sees that we have gone ahead and made this change anyway, I am concerned about how our action is going to be interpreted and whether, for example, it is going to make it more difficult to establish market power in appropriate cases where it really does exist; and that will now become a burden on the plaintiff in those instances.
>
> I am concerned about what effect this change might have on collateral well-settled antitrust policies, such as, for example, the abuse of intellectual property concept; and I would just hesitate to see us act in the absence of a clear showing that it is necessary.

(App., 1a – 2a)

The 1995 attempt to repeal the doctrine was a frontal assault on this Court's decisions as well as on the 9th Circuit's decision in *Digidyne*. In introducing the legislation, Representative Henry Hyde, the committee chairman, stated:

> The basic problem stems from Supreme Court and lower Federal court decisions that construe patents and copyrights as automatically giving the intellectual property owner market power. *Jefferson Parish Hospital District No. 2 v. Hyde,*

466 U.S. 2, 16 (1984); *United States v. Loew's, Inc.*, 371 U.S. 38, 45 (1962); *Digidyne Corp. v. Data General Corp.*, 734 F.2d 1336, 1341-42 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1984).

(App. 3a)

An attempt was made in 1988 to back door the repeal of the doctrine during the pendency of the Patent Misuse Reform Act. In *Grid Systems v. Texas Instruments, Inc.* 771 F. Supp. 1033, 1037 (N.D. Cal. 1991) the Court noted:

> The primary thrust of the first part of Senate Bill 438 [which later became section 271] went beyond patent infringement actions and would have applied generally to all tie-in antitrust violations where the tying product was a patent or copyright....Certain conclusions can be reached concerning Congress' rejection of Senate Bill 438. First, the per se rule for Sherman Act tie-in cases (as enunciated in Loew's and Jefferson Parish) remains intact, and the presumption of economic power, when the tying product is a patent or copyright, survives.

Thus, on numerous occasions, Congress has expressly rejected attempts to change the statute to overturn this Court's long standing line of decisions going back to 1946, and expressly reaffirmed in *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984). Among the many cases which have reaffirmed this decision, in addition to *International Salt Company v. United States; United States v. Loew's, Inc.*, and *Jefferson Parish Hospital District No. 2 v. Hyde, supra* are *White Motor Co. v. United States*, 372 U.S. 253 (1963);

United States Steel Corp. v. Fortner Enterprises, 429 U.S. 610 (1977); *Standard Oil Co. of Cal. v. United States*, 337 U.S. 293 (1949); and *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451 (1992).

Basically, Defendants' position is that this Court should reverse the long standing line of decisions by this Court, ignoring *stare decisis* completely, and ignoring the clear intent of Congress to maintain this doctrine, because, if this Court were considering the issue for the first time, the Court would reach a different result. If the Court were to accept the case for that reason, the Court would basically be eliminating the doctrine of *stare decisis*, as well as overturning the long line of cases which hold that precedent should be followed in a situation involving statutory construction.

This Court has made it clear, time after time, that it does not review decisions simply because it may or may not agree with the determinations made by a previous Court. That is what *stare decisis* is all about, and there is no reason in the world why this Court should review and overturn the patent tying doctrine when this Court was unwilling to take up the issue in *Digidyne, supra* and when Congress has steadfastly refused to change it.

REASONS FOR DENYING THE PETITION

I. DEFENDANTS' ECONOMIC ANALYSIS AS IT RELATES TO THE ROLE OF PATENTS IN THE MARKETPLACE IS FUNDAMENTALLY INCORRECT.

In a concurring opinion in *Jefferson Parish*, Justice O'Connor made the statement that:

> ("[a] common misconception has been that a patent or copyright * * * suffices to demonstrate market power"; while this factor might "help to give market power to a seller, it is also possible that a seller [in this situation] will have no market power: for example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product")

That statement, which is nothing more than dicta in a concurring opinion, has been seized upon by the ideological opponents of the doctrine, for the proposition that patents provide no market power, whatsoever, and should be completely disregarded in any economic analysis.[2] That is not an issue which this Court should be considering at this time. That is clearly the appropriate province of the Congress.

---

2. A careful reading of the statement shows that Justice O'Connor was focusing on a situation where "for example, a patent holder has no market power in any relevant sense **if there are close substitutes** for the patented product" (Emphasis added.) This is in no way inconsistent with the Federal Circuit's holding in this case where the Defendants have the opportunity to prove that there are close substitutes which obviate the market power of the patented products.

Congress has chosen not to change the presumption of market power in the patent. This Court should not do so either.

Even if this matter were being considered as a case of first impression, the arguments by those who state that a patent has no economic power have a complete misunderstanding of the role of patents in an economic model. Professor Areeda, on whom Defendants rely, himself has stated, in his treatise on anti-trust tying, that the starting point of any tying analysis is with an economic model.

There are three fundamental flaws in the reasoning of those who believe that a patent provides no market power. The first flaw is to ignore the fact that the starting point for all antitrust cases, and in particularly in tying cases is the economic model (Areeda). The fundamental principal of an economic model is that companies make rational decisions and they do not make investments unless there is a return on investment. Any investment without a return would be irrational. An economic model presumes rational decisions.

Where a patent is concerned, the investments are substantial. They include research and development costs; costs of manufacturing the patented product; and the costs of obtaining a patent as well as a public disclosure of the best mode for practicing the invention. The only value obtained from that investment is the monopoly power conferred by a patent. If that monopoly power confers no economic value, i.e., non patented products are equally substitutable for the patented product, then there has been a complete waste of the resources (i.e., dollars) invested in research, patenting, manufacturing, and marketing of patented products. Accordingly, it is **fair to presume** (as was stated by the Court in *Jefferson Parish*) that a patent confers

market power in the patented product. Failure to make that presumption is the failure to presume a rational economic model with decisions made on a rational economic basis.

Another mistake made by those that believe that a patent confers no economic or market power, is the assumption that the analysis of patent market power should extend to the entire world of patents. For example, in their brief Defendants set forth the statistics concerning the numbers of patents that are licensed and which obtain royalties. Those patents are completely irrelevant to the issues involved in the doctrine of patent tying. The doctrine of patent tying applies to patents which cover products actually sold by the Defendants and which manufactured products are tied to the sale of non-patented products. Patents which may or may not be licensed to others but which do not cover products marketed by Defendants, and tied to the sale of nonpatented products, are not considered as part of the patent tying doctrine.

Another mistake made by those who discount patents as having any economic value in a market, is the failure to understand the economic impact of a tying agreement. Tying agreements are a market disadvantage to any company which attempts to require a consumer of a tying product to purchase all of its tied product needs from the same source. These tying agreements deprive consumers of the opportunity to bargain for lower priced, non-patented, products. A rational economic model (the appropriate starting place for all economic presumptions) would presume that if there are two equally desirable products, one of which has a tying restriction and one of which does not have a tying restriction, the rational consumer will purchase the product without the tying restriction. Accordingly, there must be some market advantage of the tying product over its competitors, to

overcome the disadvantage, to the consumer, of being required to buy all of its tied products from one source. If the tying product is patented, then the only rational conclusion is that the additional market power, which would cause a consumer to make a rationally disadvantageous decision, in accepting a tying restriction, is the market power obtained as a result of the unique features of the patented product. That has to be the market advantage, because that is the only advantage bestowed on a product by virtue of a patent. In order to obtain a patent, a product must be novel, unique, and **useful**. A rational economic model places value on the unique **useful** features of the patented product, whereby a consumer would be willing to purchase a patented product, with the onerous restrictions of a tying contract, instead of purchasing a non-infringing substitute product without the restriction. This was recognized by this Court in *Standard Oil Co. v. United States*, 337 U.S. 293, 306 (U.S., 1949):

> In the usual case only the prospect of reducing competition would persuade a seller to adopt such a contract and only his control of the supply of the tying device, whether conferred by patent monopoly or otherwise obtained, could induce a buyer to enter one. The existence of market control of the tying device, therefore, affords a strong foundation for the presumption that it has been or probably will be used to limit competition in the tied product also.

The novelty of a patented product is what makes the economic analysis, relating to patents, different from those involved in other market power tying cases. In straight market power tying cases, several manufacturers can make an

identical or equivalent product. That is completely different from the patent situation, where a patent precludes any competitor from making the identical or equivalent product. If several manufacturers can legally make an identical product or a product which is the functional equivalent of another's product (equivalence is also prohibited under the patent laws), then it is appropriate to do an analysis to determine why a company, which makes a non-unique product, has the ability to tie the sale of that non-unique product to the sale of other products.[3]

Because a normal product tying analysis does not involve the unique ability to make a unique product, one has to look to other factors to determine what could be the economic power and leverage which would allow a company to dictate an unfavorable tying condition of sale. Because there is no unique legal monopoly, as conferred by a patent or copyright, one looks to other factors, such as market size, market domination, monopolization of supply, size of one company versus its competitors, etc.

If several companies make a product which is either identical or virtually identical (including being the equivalent by performing essentially the same function in essentially the same manner to achieve essentially the same result), and only one of the various providers of those identical or equivalent products is able to force its consumers to agree to an otherwise undesirable tying agreement, that company has

3. In fact, one could argue that it would be fair to presume economic power in any product which successfully ties the sale of one product to another, and many scholars have advocated this "traditional school" analysis. This Court has not, however, interpreted the statute in that fashion, and because of *stare decisis* that line of decisions should not be disturbed without an act of Congress.

unfair power in the market place, and is guilty of a per se violation of the antitrust laws.

Because a patent prevents a competitor from either making an identical patented product, or from making an equivalent product (one which provides essentially the same function in essentially the same manner to achieve essentially the same result), a patent, in and of itself, provides the power to preclude direct head to head competition in the patented product, or its equivalents.

Under the decision of the Federal Circuit in this case, if the Defendants were mistaken in their rational analysis, that the investment in obtaining patents on their unique products conferred the market power for which they invested, then they still have the opportunity to show that their decision was somehow mistaken, and that they did not have the market power they believed.

This case is actually a text book example of why the doctrine exists and why it is appropriate. In this case, Defendants purchased the patent rights to a printhead which is an element that goes into piezoelectric printers. Those piezoelectric printheads where developed in response to a market need. Prior to the development of the technology in this case, the only technology available for providing barcodes for large shipping cartons was "stick and apply" labels. "Stick and apply" labels were highly undesirable in a number of applications, and therefore, the piezoelectric technology, covered by Defendants' patents, was developed to address the shortcomings of the "print and apply" label technology. Defendants, as part of their economic model, approached a number of manufacturers and entered into the agreements which are the subject matter of this lawsuit. Under

those agreements, entitled "patent license agreements", the OEMs could purchase their patented printheads only from the Defendants (because they were patented and unique, there were no other suppliers). As part of these patent licenses, the manufacturers and their customers (end users) could only have the patent licenses, provided they purchased all of their ink supplies from Defendants. The ink supplies were not patented and, but for these agreements, Defendants would have had no opportunity to restrict anybody from purchasing lower cost ink from others, such as Plaintiff. Defendants made a rational decision to invest in patents, because those patents gave them market power in a unique product area, which they then exploited to monopolize virtually the entire national revenue stream from the non-patented ink, to which they had no exclusive rights whatsoever. The printing machines themselves cost less than $10,000.00. A single printing machine can use hundreds of thousands of dollars of ink per year. Accordingly, Defendants used their patented technology to provide themselves with a monopoly over non patented technology, a course of conduct expressly prohibited by the antitrust laws. This is a classic case of the utilization of a patent monopoly to create a monopoly in a non-patented product. It is ironic that Defendants, who have engaged in a classic illegal scheme, should now be asking this Court to reverse the patent tying doctrine to give them free reign to engage in this course of conduct. The only reason they were able to engage in this unlawful scheme, successfully, was because of the unique market power created by the patents in the piezoelectric printheads. Without that economic power, they would never have been able to monopolize the ink market. The ink sold by the Plaintiff in this case is identical to the ink sold by Defendants and is marketed at a substantially lower price. But for Defendants' market power in their patents, coupled with their illegal tying agreements,

Defendants would have never been able to hold onto even a majority of this market much less the approximately 90% it has been able to obtain and sustain.

The bottom line is that even if the Court were reviewing this issue for the first time, common sense, and the basic fundamentals of economic modeling, coupled with the real world impact of patents on the actual sale of products covered by patents, (as opposed to licensing of non-manufactured products), all establish that there is a solid rational basis for concluding that patents do confer market power and that fact has been recognized by a majority of this Court, repeatedly. It is also a reality which has been honored by most American manufacturers and companies since 1946. The prohibition on patent tying is known as the third rail of patent law to virtually every patent practitioner in the country today. Major companies such as Hewlett Packard go to great pains to not provide contractual requirements that people buy their non-patented supplies as a prerequisite to purchasing and using Hewlett Packards patented products (although they would love to be able to do so). The doctrine is well known and well respected (contrary to the unsupported assertions of many law firms and pundits who have either an economic reason for disliking the doctrine or who have an ideological prejudice against it). Patents are a powerful economic tool and that is the reason, (as is pointed out in Defendants' brief) that the number of patent applications filed in the United States has increased geometrically over the years. The marked increase in patent filings and patent issuances as well as the explosion of patent infringement litigation, all give a lie to the assertion by Defendants that somehow repealing this doctrine is necessary to encourage companies to invest in inventions and patents. This doctrine has been effect since

1946, it is well known, it has been respected by businesses during all of those years and there is absolutely no reason whatsoever for that doctrine to be completely reversed. In fact, reversal could create vast uncertainties among business and could have a major adverse impact on consumers when they suddenly find themselves tied up and prohibited from, e.g. refilling Hewlett Packard ink cartridges.

The presumption of market power in patents is not only solid law, it is solid economics, and is a presumption which has conferred a substantial benefit on consumers throughout the years. Elimination of this doctrine would not only be illogical, it would be highly disruptive. If anyone is going to disrupt the business climate in this country, as it relates to the ability of a company to tie the sale of one product to another, because of its patents, that is a disruption which should be undertaken by Congress, and Congress has repeatedly declined to do so.

II. THE FACT THAT THE PRESENT LEADERSHIP OF THE JUSTICE DEPARTMENT CHOOSES NOT TO UTILIZE THE PRESUMPTION OF MARKET POWER IN A PATENT, IS NOT A BASIS FOR THE SUPREME COURT REVERSING ITSELF.

There is a certain irony in a deputy assistant attorney general representing that there should be no presumption of market power, originating from a patent, which covers a marketed product and which is used to tie the sale of that marketed product to the sale of unpatented products. The irony is that the doctrine was first created in *International Salt* and the Plaintiff in that case was the Justice Department. It is obvious that the ideology of the Justice Department has changed over the years. The fact that the Justice Department,

at this point in time, does not wish to avail itself of that particular tool, does not mean the Court's analysis was not correct. That argument was raised before the Federal Circuit and soundly rejected, on the basis that the policy of some governmental agency is not determinative of what the law is. It is also not determinative of what the law should be. Whether the Justice Department chooses to avail itself of the patent tying doctrine to protect consumers, is a policy decision and a policy decision which could just as easily be reversed by the next attorney general. Defendants do not cite any instance wherein this Court has thrown aside *stare decisis* because of the policy of a government agency.[4]

III. "THE GREAT WEIGHT OF SCHOLARLY OPINION" IS IRRELEVANT.

In the hearing before the Federal Circuit in this case, Defendants' attorney attempted to argue the opinions of the so-called "legal scholars" as they relate to this issue. The panel members sharply rebuked Defendants' attorney,

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4. Not all government officials have taken the side of the proponents of tying. For example, former Federal Trade Commission Chairman Pitofsky stated:

> because intellectual property is now a principal, if not the principal, barrier to new entry in high-tech markets, ... I am concerned that recent cases, and particularly the Federal Circuit's opinion in [*In re Independent Service Organizations Antitrust Litigation*], have upset th[e] traditional balance [between intellectual property and antitrust] in a way that has disturbing implications for the future of antitrust in high-technology industries."

68 Antitrust L.J. 913, 919 (2001).

stating that the opinion of the so-called "scholars" was irrelevant; that they were not judges; that they did not take an oath of office, and that, in fact, their opinions constituted "subversive literature". What irked the Court was the fact that these "scholars" have not been merely content to criticize the doctrine, they have gone further and blatantly misrepresented that the doctrine doesn't even exist. The fact of the matter is that many of those so-called "scholars" have their own ideological axes to grind. For example, it is well known that the late Professor Areeda, a member of the "Chicago School" was vehemently opposed to the entire concept of patent tying on ideological grounds, related to his particular view that all antitrust laws should be subject to strict economic scrutiny.

Defendants have taken a number of remarks out of context from a number of articles, law review journals, panel discussions, etc. as though the particular opinions expressed by those individuals should be of more significance to this Court then the multiple decisions by this Court and the Congress of the United States which has repeatedly and forcefully rejected any and all attempts by the so-called "scholars" and others who have not been hesitant about expressing their views about this particular doctrine. This doctrine has been debated for decades and at no time, have the opponents of this doctrine, in spite of their repeated and ongoing efforts, had any success, whatsoever, in convincing Congress to change this law. The fact that so many "scholars" have crashed their ships of opposition against the granite rocks of Congress should make it abundantly clear to this Court that Congress has no intention of changing this law. Congress is well aware of the chorus of "scholarly" opinions, which is primarily a product of the ideology of those "scholars" and has rejected their attempts to change the law

time after time after time. If this chorus of "scholars" had not been so loud, over the decades, then one might argue that Congress was unaware of the "problems" caused by this doctrine. The fact that the opponents of the patent tying presumption have been so loud, for so long, further highlights the fact that Congress has made a conscience decision to reject those efforts and to maintain the Supreme Court's interpretation of Section 1.[5]

One must admire the tenacity of the opponents of this doctrine. They have failed in every attempt to have the Supreme Court reverse the doctrine. They have failed in every

5. It is worth noting that many of these "scholars" posited their views on the fact that some 80% of patents confer little or no economic value on the patentees. Those kinds of statements indicate a fundamental lack of understanding of the role of patents as they relate to the doctrine of patent tying. The some 80% of patents which provide no direct economic value, are patents which are not applied to products which are actually sold in the marketplace. Products which are not sold in the market place and which are not used in a tying arrangement, are not the subject matter of the patent tying doctrine. The patent tying doctrine applies only to patents on products which are actually sold in the market place and which patented products are tied to the sale of non-patented products. Tying constitutes an illegal extension of the patents monopoly in a situation where the patent owner utilizes the power of the patent on the manufactured tying product to exclude head to head competition against the tying product. In *Jefferson Parish*, the Court reiterated that the philosophical basis for the prohibition on patent tying was to prohibit the illegal extension of the patent monopoly from a patented product to a non-patented product. *That case was decided in 1984. If* Congress did not agree with the philosophical underpinnings of that doctrine, it has had multiple opportunities to change the doctrine and to revise Section 1 and it has consciously and consistently decided not to do so. No chorus of so called "scholars" should ever be used by this Court to overturn the clear will and intent of Congress.

attempt in the circuit courts of appeal (except for *A.I. Root Co. v. Computer Dynamics Inc.*, 806 F.2d 673 (6th Cir. 1986), wherein the Court expressly refused to follow an express holding of this Court and chose to follow the reasoning of a law review journal); they have failed in every attempt to convince Congress to eliminate this doctrine, and yet, once again, having failed in every other venue, they are returning once again to this Court for another bite of the apple. "Scholars" or no "scholars", this attempt should also be rejected. If these vociferous opponents of the doctrine have not been able to convince Congress, after all of these years, and all their efforts, they should just accept the existence of the doctrine, as has the rest of the Country, including the overwhelming majority of the business community.[6]

There are plenty of scholars on the other side of the Chicago School advocates. *See, e.g.*, Eleanor M. Fox

6. It is worth noting that none of the "scholars" represent any consumer advocates. The antitrust laws were created to benefit consumers. There has been an historical conflict in this country, which began when President Theodore Roosevelt started his trust busting crusades. That conflict is between big business on the one hand and consumers and small business on the other. The efforts by those seeking to eliminate the presumption are intended to further the power of big business at the expense of small businesses and consumers. This case is a classic example. Without the tying license, Plaintiff would have been able to sell its identical product at lower prices, which would have benefited not only consumers, but competition.

This case is bringing the usual suspects out of the woodwork. For example, the American Intellectual Property Law Association, which purports to speak for the patent bar (it doesn't) has been in the forefront of the unsuccessful effort to have Congress eliminate the presumption. It now wants to file an amicus brief in this case. The same is true of the American Bar Association, which for some reason, deems it appropriate to involve itself in these issues repeatedly, even though its efforts, to date, have been futile.

"The Modernization of Antitrust: A New Equilibrium", 66 Cornell Law Review 1140, 1146-55 (1981), Michael S. Jacobs, "An Essay on the Normative Foundations of Antitrust Economics" 74 NC L Review 219, 232-40 (1995).

IV. STATEMENTS BY MEMBERS OF THIS COURT, IN A CONCURRING OPINION AND IN A DISSENT TO A DENIAL OF A REQUEST FOR WRIT OF CERTIORARI ARE NOT A PROPER BASIS FOR THIS COURT TO UNDERTAKE A COMPLETE REVIEW OF A LONG ESTABLISHED SUPREME COURT DOCTRINE, WHICH HAS BEEN REPEATEDLY RATIFIED BY CONGRESS, THROUGH ITS REFUSAL TO CHANGE THE DOCTRINE.

The statement in *Jefferson Parish* in a concurring opinion, by a minority of the Court, was nothing more than a single phrase without any explanation or analysis and was not persuasive to the majority of the Court. As was discussed at some length above, this Court follows *stare decisis*, particularly in the area of statutory construction. Even if all of the members of the Court believed that the presumption should be eliminated because they disagreed with the philosophical underpinnings of the doctrine, regarding an illegal extension of the patent monopoly, this Court has an obligation to follow *stare decisis*. As indicated above, the *Digidyne* dissent related to software copyrights. Nowhere in that opinion did the justices indicate that they were interested in revisiting the doctrine as it applies to patents.

V. THERE IS NO DISARRAY WITHIN THE LOWER COURTS.

In the first place, the Supreme Court is under no obligation to accept a case in order to straighten out disagreements with district courts. When the Supreme Court resolves conflicts, they are conflicts between circuit courts, not district courts.

When this Court undertakes to resolve differences between circuit courts, it is in situations where the Supreme Court has not spoken and the circuit courts have caused confusion throughout the Country, because different circuits have created different, conflicting decisions. Sometimes in those situations, the Court will accept a case in order to eliminate the confusion. That, of course, is not always the case. Many times this Court has refused to grant certiorari, even when there are clear differences among the circuits. If this Court undertook to resolve every dispute between circuits, it would have little time for any other activities or any other types of cases.

In this case, we are not dealing with an area of the law to which the Supreme Court has not spoken. As acknowledged by Defendants, as of this time the Courts clear holdings, relating to the doctrine of patent and copyright tying, have been followed by the Ninth Circuit; the Eleventh Circuit, and now the Federal Circuit. None of those circuit courts have had any difficulty, whatsoever, understanding this Court's clearly enunciated doctrine as it relates to the presumption of market power in a patented or copyrighted product. None of those courts had any difficulty understanding the philosophical underpinnings of that doctrine which prohibits attempts to expand the patent

monopoly, to non-patented products. In spite of the numerous writings of so-called "scholars" that the doctrine has somehow ceased to exist, the doctrine is very much alive and has been recognized as very much alive by those three circuit courts. The only circuit which has not followed the Supreme Court decisions was a rogue panel of the Sixth Circuit in the case of *A.I. Root Co. v. Computer/Dynamics, Inc.*, *supra*. In that case, as was pointed out by the Federal Circuit panel in the case at bar, the Court expressly stated that it was going to follow the reasoning of a law review article instead of an express holding of the United States Supreme Court. That contemptuous attitude and blatant refusal to follow the express holding of this Court should not be held up as a conflict between the circuits.

It is respectfully suggested that it is adding insult to injury to ask this Court to consider that decision, which expressly stated that it was refusing to follow a holding of this Court, as a basis for this Court reconsidering its decisions in overturning precedent after precedent after precedent.

VI. PLAINTIFF AGREES THAT THE CONTINUING VITALITY OF THE MARKET POWER PRESUMPTION IS AN ISSUE OF SUBSTANTIAL PRACTICAL IMPORTANCE.

The irony of this portion of Defendants' brief is that they claim that the existence of this doctrine, which has been extant since 1946, must be eliminated in order to allow the creative abilities of American companies to express themselves by obtaining patents. In the same section, Defendants point out that in 2000, the patent office issued over 175,000 patents, compared to only about 66,000 twenty years ago. This is in the same brief where the Defendants

argue that patents have virtually no economic power. If patents have virtually no economic power, why are companies making these massive investments in obtaining patents.

What is often not understood by the "scholars" and pundits, who do not live in the real world of patents and the real world of businesses which have patent programs, is that the investment in patents is not limited to those specific patents which are effective in excluding competition. A company may invest hundreds of millions of dollars in research and development and produce thousands of patents, none of which produce any economic value. Out of those thousands of patents, however, one or two patents may emerge which provide an economic benefit. A patent, which provide the economic benefit of a monopoly on a product which is actually brought to market, is often the result of an entire program of research and development, with millions of dollars often spent in obtaining an entire patent portfolio. Companies are willing to make those extraordinary investments because of the return on those investments in obtaining one or two powerful patents, and they have done so throughout the some fifty eight years the doctrine has been in existence.

Defendants and the opponents of the patent tying doctrine, have never produced any studies to establish that **patented products used in tying arrangements** do not have market power. Because businesses are willing to invest millions of dollars in research, development, and patent programs, as well as disclosing their preferred embodiment, it is fair to presume that when they are successful in obtaining a patent, covering products which they are bringing to market, that the substantial economic investments have been

worthwhile. If the patented product has no economic value, over its competitors, in terms of its unique patented features, then those millions of dollars will have produced no financial or economic benefit. In other words, that decision would have been an irrational decision and it is fair to presume that companies do not make such irrational decisions as they relate to research, development, manufacturing and patents.

The practical reality is that this doctrine has been effect for decades. It is well known and it is well respected. Hardly any companies engage in illegal patent tying because all of them are aware of the fact that it is an illegal activity. The Defendant in this case is one of the rare exceptions of a company which was willing to run the risk in an illegal scheme because of its perceived economic benefits. Most legitimate businesses do not engage in patent tying. A perfect example is Hewlett Packard, which would frankly love to be able to prevent the refilling of its ink jet cartridges as a prerequisite to consumers purchasing its patented printers. Other examples include patented fax machines, the replaceable printing rollers of which are their main source of income. Many manufacturers of fax machines would love to be able to restrict the consumer to purchasing only replaceable printing rollers manufactured by them. The same is true of copy machines. There is a long list of examples of situations where the refill products constitute the main source of revenue and where the products, which use the refill products, are patented. Because of the existence of patents, those particular products are unique and anyone wishing to purchase those products would thereafter be expressly prohibited from using the products of others to replace the consumable items. More importantly, anyone attempting to provide refill products can be sued for interfering with a contract (as was threatened by Defendants in this case). It is

no secret that tens of millions of dollars of refill ink, for refilling Hewlett Packard cartridges, is sold every year by companies who are able to profit from refilling those cartridges. This is a considerable savings to the consumers, who do not have to buy new cartridges every time they run out of ink. Repealing the doctrine of patent tying could potentially open a Pandora's Box of problems in these areas. That is precisely why Congress has refused, time after time after time, to heed the squeals and cries of the "scholars" attempting to reverse this doctrine.

CONCLUSION

This Court should not usurp the province of Congress. It should refuse to accept this case.[7]

Respectfully submitted,

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7. Should the Court accept this case, Plaintiff believes that under *International Salt,* the presumption should not be rebuttable and Plaintiffs will ask this Court to decide that issue. Plaintiff also believes the Federal Circuit was wrong in affirming the portions of the District Courts' decision which it affirmed and in allowing the Defendants to introduce evidence of lack of market power when the uncontroverted facts in this case show that there were no substitutes for the patented printheads.

APPENDIX

APPENDIX — EXCERPTS OF HEARING BEFORE THE SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY OF THE COMMITTEE ON THE JUDICIARY HOUSE OF REPRESENTATIVES, ONE HUNDRED SEVENTH CONGRESS, FIRST SESSION DATED NOVEMBER 8, 2001

MARKET POWER AND INTELLECTUAL PROPERTY LITIGATION

HEARING

BEFORE THE

SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY

OF THE

COMMITTEE ON THE JUDICIARY HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS FIRST SESSION

NOVEMBER 8, 2001

Serial No. 42

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* * *

Mr. Boucher. Let me simply conclude my time here by saying something. I really don't perceive a need to adopt this legislation, and let me just put that belief on the record here. I am concerned that if we pass this in the absence of a clear need to do it, it is a change to the Nation's antitrust laws.

Appendix

We make those changes very sparingly and for good reason. Because, when we make a change, it is going to be interpreted by the courts to mean something. And if the Supreme Court, which already says there is no presumption in the absence of a showing of lack of substitutable product, sees that we have gone ahead and made this change anyway, I am concerned about how our action is going to be interpreted and whether, for example, it is going to make it more difficult to establish market power in appropriate cases where it really does exist; and that will now become a burden on the plaintiff in those instances.

I am concerned about what effect this change might have on collateral well-settled antitrust policies, such as, for example, the abuse of intellectual property concept; and I would just hesitate to see us act in the absence of a clear showing that it is necessary.

Thank you, Mr. Chairman.

* * *

- The basic problem stems from Supreme Court and lower Federal court decisions that construe patents and copyrights as automatically giving the intellectual property owner market power. *Jefferson Parish Hospital District No. 2 v. Hyde,* 466 U.S. 2, 16 (1984); *United States v. Loew's, Inc.,* 371 U.S. 38, 45 (1962); *Digidyne Corp. v. Data General Corp.,* 734 F.2d 1336, 1341-42 (9th Cir. 1984), *cert. denied,* 473 U.S. 908 (1984). To be sure, some courts have also refused to apply the presumption despite the Supreme Court's rulings. *Abbott*

Appendix

Laboratories v. Brennan, 952 F.2d 1346, 1354-55 (Fed. Cir. 1991), cert. denied, 505 U.S. 1205 (1992): *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673, 676 (6th Cir. 1986). As the guidelines note, the law is unclear on this issue. Antitrust Guidelines for the Licensing of Intellectual Property dated April 6, 1995 at 4 n. 10. This lack of clarity causes uncertainty about the law which, in turn stifles innovation and discourages the dissemination of technology.

* * * *

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MAY 5 - 2005

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No. 04-1329

IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

MOTION TO FILE BRIEF *AMICUS CURIAE* AND BRIEF OF THE AMERICAN BAR ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF PETITIONERS

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MOTION TO FILE BRIEF *AMICUS CURIAE* OF THE AMERICAN BAR ASSOCIATION IN SUPPORT OF PETITIONERS

The American Bar Association ("ABA") respectfully moves for leave to file the attached *amicus curiae* brief, pursuant to Supreme Court rule 37.2(b), in favor of granting the petition for a writ of *certiorari*.

The ABA, with over 405,000 members, is the leading national membership organization of the legal profession. Its members come from each of the fifty states, the District of Columbia, and the U.S. territories. Membership is voluntary and includes attorneys in private practice, government service, corporate law departments, and public interest organizations, as well as legislators, law professors, law students, and non-lawyer associates in related fields. ABA members represent the full spectrum of public and private litigants, including plaintiffs and defendants. Among the ABA entities is the Section of Antitrust Law, with over 9,000 members, and the Section of Intellectual Property Law, with over 19,000 members.

This case squarely presents the question whether a court must presume that a patent confers market power for purposes of a tying claim under Section 1 of the Sherman Act. In 1990, the House of Delegates of the ABA adopted a resolution providing that intellectual property rights shall not be presumed to define a market or to establish market power in actions under the antitrust laws.* Because the ABA

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* Specifically, the ABA House of Delegates adopted a policy position that favored "in principle legislation such as H.R. 469, 101st Cong., 1st Sess. (1989) (Fish) and S. 270 101st Cong., 2d Sess. (1989) (Leahy) which provide[d] that intellectual property rights should not be presumed to define a market or to establish market power in actions under the antitrust laws." ABA Section of Patent, Trademark & Copyright Law, *Report and Recommendation to the House of Delegates*, Report No. 122C (Feb. 1990). In 2001, the ABA reiterated its support for bills that would prevent any presumption of market power in intellectual property

represents a uniquely broad spectrum of the American legal community, its perspective on the central issue in this case should be helpful to this Court.

In accordance with Supreme Court Rule 37.2, the ABA represents that it obtained written consent from counsel for the petitioners to file an amicus brief. Counsel for the respondent declined to consent, however, thereby necessitating this motion. Sup. Ct. R. 37.2(b).

For these reasons and those set out in the accompanying brief, the ABA hereby moves the Court to allow it to appear as *Amicus Curiae*, and to submit its brief urging the Court to grant the Petition and reverse the decision of the Court of Appeals for the Federal Circuit.

Respectfully submitted,

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(continued...)

cases. *See* Statement of Charles P. Baker, "Market Power and Intellectual Property Litigation," *Hearing Before the Subcomm. on the Courts, the Internet, and Intellectual Property, House Comm. on the Judiciary*, Nov. 8, 2001.

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STATEMENT OF INTEREST[1]

The Statement of Interest of the ABA is included in the Motion to File. The ABA has no interest in any party to this litigation or stake in the outcome of this case.

STATEMENT OF THE CASE

The ABA adopts the Statement of the Case presented by the petitioner. Pet. at 1-8. The petitioner sells a patented printhead for the application of barcodes to packages and cartons as they move on an assembly line. The license to use the printhead technology requires the licensee to buy ink exclusively from petitioner. The Court of Appeals for the Federal Circuit concluded: "We thus have an explicit tying agreement conditioning the sale of a patented product (the printhead . . .) on the sale of an unpatented one (the ink)." *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, 396 F.3d 1342, 1345 (Fed. Cir. 2005). The Court of Appeals reversed a finding of summary judgment for the petitioner, holding that it was bound by prior Supreme Court precedent to presume that the existence of the patent alone conferred market power in the tying product. *Id.* at 1351, citing *United States v. Loew's Inc.*, 371 U.S. 38 (1962).

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[1] In accordance with Supreme Court Rule 37.6, the ABA states that this brief has not been authored in whole or in part by counsel for a party and that no person or entity, other than Amicus, its members or its counsel, has made a monetary contribution to the preparation or submission of this brief.

Neither this brief nor the decision to file it should be interpreted to reflect the view of any judicial member of the American Bar Association. No inference should be drawn that any member of the Judicial Division Council has participated in the adoption of or endorsement of the positions in this brief. This brief was not circulated to any member of the Judicial Division Council prior to filing.

REASONS FOR GRANTING THE PETITION

I. GRANTING THE PETITION WILL PROVIDE NEEDED GUIDANCE ON AN IMPORTANT ISSUE BY HARMONIZING CONFLICT IN THE LOWER COURTS

This case presents a legal dispute that is classically appropriate for resolution by this Court.

First, the issue presented -- whether the existence of a patent alone implies market power -- is of great concern to the bench and bar. This concern is reflected by the extensive discussions in the lower courts, as well as in the academic literature, legislative proceedings, and bar association resolutions. Pet. at 17-20 and 21-24.

Second, thanks to the thorough analysis of the courts below, the issue is clearly framed, purely legal, and controlling. Summary judgment for petitioners on the Section 1 tying claim was reversed *solely* because of the presumption of market power. 397 F.3d at 1352-53.

Third, there is a deep and obvious split in the Courts of Appeals, the position of the Ninth and Eleventh Circuits being directly contrary to that of the Sixth and Seventh Circuits.[2] As the petition demonstrates, the district courts are not simply divided, but in disarray -- the variety of means by which they have distinguished the language of this Court's

[2] *Compare MCA Television Ltd. v. Public Interest Corp.*, 171 F.3d 1265, 1278-1279 (11th Cir. 1999), *and Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336, 1345 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985), *with A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673, 676 (6th Cir. 1986), *and Will v. Comprehensive Accounting Corp.*, 776 F.2d 665, 673 n.4 (7th Cir. 1985) (Easterbrook, J.), *cert. denied*, 475 U.S. 1129 (1986).

early cases on which the Federal Circuit relied "are a tribute to judicial ingenuity."[3]

Fourth, this Court has not directly addressed the requirements for market power in a case involving a patented or copyrighted product for over forty years, since its 1962 decision in *Loew's*.[4] In the meantime, several Justices have questioned the presumption of market power, including current members of the Court.[5]

These factors demonstrate that the Court's resolution of the question presented -- no matter how it rules -- will provide useful guidance to the courts who must grapple with this issue in the face of conflicting rationales. It will also assist all members of the bar, including more than 25,000 members of the ABA's Sections of Antitrust and Intellectual Property Law, who must advise their clients at the often treacherous intersection of antitrust and patent law.

II. THE COURT SHOULD REJECT THE MARKET POWER PRESUMPTION WHETHER THE COURT OF APPEALS WAS RIGHT OR WRONG IN ITS APPLICATION OF *LOEW'S*

A. The Existence Of Intellectual Property Rights Does Not Imply Market Power In Antitrust Cases

The ABA submits that the Court should grant *certiorari* and endorse a simple proposition: There is no basis in economic reality or legal policy for any presumption that the existence of a patent implies market power. In fact, the evidence that exists suggests that the opposite is true. The

[3] *See* Pet. at 22 (quoting *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 48 n.14 (1977)).

[4] *United States v. Loew's Inc.*, 371 U.S. 38 (1962).

[5] *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 37-38 n.7 (O'Connor, J., joined by Burger, C.J., and Powell and Rehnquist, J., concurring in the judgment); *Data Gen. Corp. v. Digidyne Corp.*, 473 U.S. 908, 909 (1985) (White, J., joined by Blackmun, J., dissenting from denial of *certiorari*).

consensus was well summarized by the Chair of the ABA Section of Intellectual Property Law when he testified before Congress in 2001:

> Because such presumptions are arbitrary, ignoring real world facts, they have no proper basis from the point of view of either intellectual property or antitrust law, and they lower incentives created by intellectual property law to invest in new jobs and new industrial facilities based on technical advances.[6]

Both courts and commentators agree that most patents confer either no market power or "too little . . . to be a proper object of antitrust concern."[7] Professor Areeda's treatise confirms that "[p]atents, copyrights, trademarks, and other forms of intellectual property do not themselves confer *any* market power."[8] Accordingly, both federal enforcement agencies have eschewed any presumption of market power in their enforcement guidelines. Pet. at 17-18. And, if there were any doubt because of its holding in this case, the Federal Circuit's position is identical: "A patent alone does not demonstrate market power."[9]

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[6] *See* Statement of Charles P. Baker, Chair, Section of Intellectual Property Law, on behalf of the American Bar Association, "Market Power and Intellectual Property Litigation," Hearing before the Subcomm. on Courts, the Internet, and Intellectual Property, House Comm. on the Judiciary (Nov. 8, 2001) at 1-2 and nn.1 & 2 (citing prior testimony by the ABA on this issue) (footnote omitted) *available at* http://www.abanet.org/intelprop/marketpower.pdf.

[7] R. Posner, *Antitrust Law* 197-98 (2d ed. 2001). *See* Pet. at 19-20 (collecting authorities). *See also USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 511 (7th Cir. 1982), citing *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1203 (2d Cir. 1981).

[8] IIA P. Areeda, H. Hovenkamp, & J. Solow, *Antitrust Law* ¶ 518a, at 136 (2d ed. 2002) (emphasis added).

[9] *In re Independent Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325 (Fed. Cir. 2000), *cert. denied*, 531 U.S. 1143 (2001).

In this case, the Federal Circuit did not abandon this view, nor dispute the proposition. Nor did it suggest that the presumption promotes other legal policy objectives. It held, rather, that its hands were tied; that the Supreme Court's "early" cases had made this error; and that only this Court may correct it:

> Even where a Supreme Court precedent contains many "infirmities" and rests upon "wobbly, moth-eaten foundations," it remains the "Court's prerogative alone to overrule one of its precedents." *State Oil Co. v. Khan*, 522 U.S. 3, 20, 118 S. Ct. 275, 139 L.Ed.2d 199 (1997).

Independent Ink, 396 F.3d at 1351.

The ABA believes that the Federal Circuit's conclusion that it was bound by *Loew's* is based upon a questionable reading of this Court's "early" cases. Indeed, the Court's early decisions recognized that the existence of intellectual property rights does not dictate actual market power. Four years before the Supreme Court's decision in *Loew's*,[10] by which the Federal Circuit felt bound here, Justice Black wrote for the Court in the *Northern Pacific* case that the proposition long espoused by the ABA was already "common knowledge":

> Of course it is common knowledge that a patent does not always confer a monopoly over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the patent privileges is slight.[11]

The Court in *Loew's* did not dispute or reject this proposition; in fact, the *Loew's* opinion described its analysis as but "a particularized application of the general doctrine as

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[10] *United States v. Loew's Inc.*, 371 U.S. 38 (1962).

[11] *Northern Pac. Ry. Co. v. United States*, 356 U.S. 1, 10 n.8 (1958).

reaffirmed in *Northern Pacific*."[12] Accordingly, the ABA submits that, properly read, *Loew's* did not misperceive the economic connection between patents and true market power at all. Rather, as set forth below, the "presumption" this Court embraced in *Loew's* was not one of market power, but a "presumption of uniqueness" which was itself abandoned in the Court's subsequent decisions.

The ABA respectfully submits that continued application of the presumption serves no useful social purpose. It serves only to reduce legitimate incentives for innovation, to the direct detriment of consumers, and directly contrary to the purposes of the antitrust laws.[13]

B. The Petition Should Be Granted Whether Or Not *Loew's* Dictates The Holding Below

Although the ABA believes that the Court has already recognized that a patent right does not necessarily establish any market power, the Court need not resolve whether the Federal Circuit was right or wrong in its analysis of *Loew's*. Regardless of whether the Federal Circuit correctly interpreted this Court's precedent, the Court should grant *certiorari*.

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[12] *Loew's*, 371 U.S. at 50.

[13] *See, e.g.*, I P. Areeda & H. Hovenkamp, *Antitrust Law* ¶ 100 at 4 (2d ed. 2000) ("[T]he principal objective of antitrust policy is to maximize consumer welfare by encouraging firms to behave competitively, while yet permitting them to take advantage of every available economy that comes from internal or jointly created production efficiencies, or from innovation producing new processes or new or improved products."). Neither the Federal Circuit below nor any other court of which the ABA is aware has suggested that the market power presumption -- by treating patented goods differently than all other tying products -- provides any benefit to consumers under the antitrust laws. Nor has any court suggested that overruling *Loew's* on this point (if that is what is required) would have any adverse effect on the legal administration of the antitrust laws.

If the Federal Circuit was wrong, it has done more than merely widen an existing split. The error by the Federal Circuit is particularly troubling because of the Federal Circuit's view of the nature of its jurisdiction. For the Federal Court to hold that a blanket presumption applies to patented and copyrighted tying products thus has a greater impact on the bench and bar than would a similar holding by any other Court of Appeals, and the need for Supreme Court review is accordingly enhanced.

In the first place, most claims of patent "tying" will be heard in the Federal Circuit because they typically accompany or respond to claims challenging the underlying intellectual property right. Such cases necessarily will be governed by the decision below. In addition, the Federal Circuit has previously stated that "Federal Circuit law governs all antitrust claims premised on the abuse of a patent right." *Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc.*, 375 F.3d 1341, 1355 (Fed. Cir. 2004), *cert. granted on other grounds*, 125 S. Ct. 1396 (Feb. 28, 2005) (No. 04-597).

In its opinion below, the Federal Circuit reaffirmed its view that *every* allegation of tying involving a patent will be governed by the presumption it has applied in this case: "We conclude that the antitrust consequences of patent tying likewise is a question governed by our law." *Independent Ink*, 396 F.3d at 1346 (footnote omitted). Thus, the Federal Circuit has taken the position that claims heard in *other* Circuits should also be decided by applying Federal Circuit law -- which would include the flat "presumption" announced in this case.[14] Even if the Federal Circuit was

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[14] *See, e.g., Unitherm*, 375 F.3d at 1355 n.3 (warning that another appellate court deciding such antitrust claims would "risk disturbing Congress's goal of ensuring patent-law uniformity by applying its own law.") (internal quotation marks omitted); *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1360 (Fed. Cir. 1999) ("[T]he question whether particular conduct by a patentee exposes the patentee to suit under the antitrust laws would be decided under this court's precedents . . . even though the issue required the court to decide the

wrong in its application of *Loew's*, therefore, the wrong rule may be applied in the vast majority of tying cases involving intellectual property rights unless and until this Court corrects it.

If, on the other hand, the Federal Circuit was right that it was "obliged to follow the Supreme Court's direction in this respect," 396 F.3d at 1351, the case for *certiorari* is even more compelling. In that event, as the Federal Circuit noted, there is extensive dissension and dissatisfaction in the lower courts with the market power presumption that only this Court can address. The lower courts clearly seek guidance as to the viability of such a rule.

III. THE PETITION PROVIDES A UNIQUE OPPORTUNITY TO CLARIFY THE LAW REGARDING THE EFFECT OF PATENTS ON THE ANALYSIS OF ANTITRUST TYING CASES

By granting the petition, the Court would have the opportunity to reconsider or clarify its decision in *Loew's*, which the Court of Appeals deemed controlling. Again, while the ABA need not take a position on whether the Federal Circuit erred in finding that the market power presumption is prescribed by *Loew's*, lower courts and practitioners require guidance ultimately on that question. The ABA believes that a clarification of *Loew's* would produce enormous value, in reconciling that decision with the Court's other decisions in this field.

A. *Loew's* and The "Presumption of Uniqueness"

To support a claim of illegal tying, this Court's decisions now require a showing of genuine and substantial power in

(continued...)

scope of antitrust liability, a matter not within our exclusive jurisdiction."), *overruled in part on other grounds by TrafFix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23 (2001) We express no view as to whether other courts will, or should, follow this advice.

the market for the tying product.[15] At the same time, several of the Court's cases contain language suggesting that a patent on the tying product allows the requisite showing of power to be presumed.[16] The Federal Circuit resolved this apparent anomaly by concluding that the Court's tying jurisprudence reflects not one but two lines of cases. One set of rules governs "patent tying," where the tying product enjoys intellectual property protection; the other set governs all other tying products "not involving intellectual property." 396 F.3d at 1348. In the view of the Federal Circuit, this Court's current requirement of genuine market power, although clearly modifying other non-patent cases such as *Northern Pacific*, *see id.* at 1347, has left the "patent tying" cases unaffected: "The Court's treatment of tying cases when the tying product is patented or copyrighted, however, has been more consistent." *Id.* at 1348.

This case presents a critical opportunity for the Court to address whether it intended such a two-pronged analysis, particularly in light of its other jurisprudence suggesting otherwise. In fact, the opinion of Justice Black in *Northern Pacific* expressly disagreed that any special analysis was warranted in patent cases. In that case, the Court cited its prior decision in *International Salt*,[17] involving a patented tying product, as "ample authority for affirming the judgment below." 356 U.S. at 8. The distinction between patented and unpatented products was of no moment to this Court:

[15] *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984); *United States Steel Corp. v. Fortner Enters., Inc.*, 429 U.S. 610 (1977).

[16] *See, e.g.*, Pet. at 10. *See Independent Ink*, 396 F.3d at 1348.

[17] *International Salt Co. v. United States*, 332 U.S. 392 (1947). The Court in *International Salt* did not address any requirement of power in the tying product, nor suggest that the patent raised a presumption of such power.

> The defendant attempts to evade the force of *International Salt* on the ground that the tying product there was patented while here it is not. But we do not believe this distinction has, or should have, any significance. In arriving at its decision in *International Salt* the Court placed no reliance on the fact that a patent was involved nor did it give the slightest intimation that the outcome would have been any different if that had not been the case.

Id. at 9. [18]

The *Northern Pacific* Court also made clear that its concept of "power" in the tying product was far broader than any modern notion of power over price. Rather, it was the power to force an unwanted sale "regardless of the source from which the power is derived and whether the power takes the form of a monopoly or not." *Id.*

Shortly after *Northern Pacific* came the opinion that the Federal Circuit said could not be distinguished here, *United States v. Loew's Inc.*, 371 U.S. 38 (1962). The tying product there was "copyrighted feature motion pictures for television exhibition" of high quality, *id.* at 39, which were sold on condition that films of lesser quality were taken as well. *Id.* at 41-42. Far from viewing the intellectual property rights before it as invoking a different line of cases, Justice Goldberg wrote that "[a]pplicability of *Paramount Pictures* [involving copyrights] brings with it a meeting of the test of *Northern Pacific*, since *Paramount Pictures* is but a particularized application of the general doctrine as reaffirmed in *Northern Pacific*." *Id.* at 50.

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[18] When the defendant argued that *Times-Picayune Publ'g Co. v..United States*, 345 U.S. 594 (1953), had required genuine economic power in the tying product market, Justice Black responded that "*Times-Picayune*, of course, must be viewed in context with *International Salt* and our other decisions concerning tying agreements. There is no warrant for treating it as a departure from those cases." 356 U.S. at 11.

The Court in *Loew's* reiterated the view of *Northern Pacific* that the requisite power to force the tied sale did not require "market dominance" or even "a demonstration of market power in the sense of § 2 of the Sherman Act." *Id.* at 45 n.4.

> Even absent a showing of market dominance, the crucial economic power may be inferred from the tying product's desirability to consumers or from uniqueness in its attributes.

Id. at 45 (footnote omitted). Based upon this definition of power, the Court stated in the next sentence that "[t]he requisite economic power is presumed when the tying product is patented or copyrighted." *Id.* That conclusion, in turn, was based on "the theory that the existence of a valid patent on the tying product, without more, establishes a *distinctiveness* sufficient to conclude that any tying arrangement involving the patented product would have anti-competitive consequences." *Id.* at 46 (emphasis added).

Finally, even as it argued that the presumption it described should be sufficient, the *Loew's* Court did not limit its rationale to the existence of the intellectual property right. The Court listed several competitive harms apparent from the record, noting that "[t]hese anti-competitive consequences" confirmed the wisdom of the Court's "recognition that the mere presence of competing substitutes for the tying product . . . is insufficient to destroy the legal, and indeed the economic, distinctiveness of the copyrighted product." *Id.* at 49. In addition, the Court reviewed the District Court's factual findings that "each copyrighted film" was "in itself a unique product," giving each defendant "a 'monopolistic' position as to each tying product." *Id.* at 48. These findings were sufficient to support the lower court's conclusion because they "confirm[ed] the *presumption of uniqueness* resulting from the existence of the copyright itself." *Id.* (emphasis added).

Three conclusions flow from the state of this Court's tying doctrine when *Loew's* was decided in 1962. *First*, those earlier decisions do not support the conclusion that this Court's analysis of tying follows two divergent and independent paths, one of which is properly described as "patent tying." *Second*, the Court's test for power in the tying product was in reality a test of "distinctiveness" or "uniqueness," not actual market power in the antitrust sense of power over price. A showing of actual market power was a sufficient, but by no means necessary, means of showing such uniqueness. And a patent met this test almost by definition because "one of the objectives of the patent laws is to reward uniqueness." *Id.* at 46. *Third*, the Court's holding in *Loew's* was justified on multiple grounds, of which the "presumption of uniqueness" was only one. *Id.* at 48-49.

B. *Fortner II* and The Requirement of Actual Market Power

The Court's subsequent decisions in *Fortner II*[19] and *Jefferson Parish*[20] fundamentally altered the law of tying. In *Fortner II*, the Court reversed a finding of requisite power in the tying product market that was based on a finding of uniqueness. That finding, in turn, was based on several indicia of uniqueness suggested by Justice Black in his prior opinion for the Court in *Fortner I*.[21] 429 U.S. at 614-16. The Court nonetheless rejected these findings as insufficient to establish the power requirement for tying. *Id.* at 618.

The *Fortner II* Court explained that "uniqueness" was relevant to the question of tying product power only to the extent that it reflected "whether the seller has the power, within the market for the tying product, to raise prices or to

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[19] *United States Steel Corp. v. Fortner Enters., Inc.*, 429 U.S. 610 (1977).

[20] *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984).

[21] *Fortner Enters., Inc. v. United States Steel Corp.*, 394 U.S. 495 (1969).

require purchasers to accept burdensome terms that could not be exacted in a completely competitive market." *Id.* at 620 (footnote omitted). The Court acknowledged that a commentator on *Fortner I* had "correctly analyzed the burden of proof" when he stated that "[it is] clear that market power in the sense of power over price must still exist." *Id.* at 620 n.13.

In this way, the definition of "power" for purposes of tying analysis was changed fundamentally from the approach of *Northern Pacific* and *Loew's*. Whereas in *Loew's* true market power was simply one means of showing the requisite "uniqueness," after *Fortner II* "uniqueness" is only a means of showing real power over price. The plaintiff in *Fortner II* lost because its evidence of "uniqueness" did not relate to actual market power. *Id.* at 621-22. The doctrine was cemented by the decision in *Jefferson Parish*, where the Court rejected a tying claim because a 30 percent market share was too small to show market power, despite evidence that the surgical services involved were "unique" in other senses. *Jefferson Parish*, 466 U.S. at 27 ("While these factors may generate 'market power' in some abstract sen. they do not generate the kind of market power that justifies condemnation of tying." (footnote omitted)). Those holdings cannot be squared with the Court's view in *Loew's* that "the mere presence of competing substitutes for the tying product" is insufficient to defeat a tying claim. *Loew's*, 371 U.S. at 49.

In sum, while the Federal Circuit believed the decision in *Loew's* warranted a reversal of the district court's decision, there is ample room for this Court to conclude otherwise. The statement of the Court in *Loew's* that "[t]he requisite economic power is presumed when the tying product is patented or copyrighted," 371 U.S. at 45, was made when the reference to "economic power" meant merely "desirability to consumers, or . . . uniqueness . . . ." *Id.* That is no longer the case under *Fortner II* and *Jefferson Parish*. To read *Loew's* as creating a presumption of *market power*,

therefore, extends both its holding *and* its language, which expressly defended a "presumption of uniqueness," not power over price. Such a reading is also unnecessary to resolve this case because, as noted above, the Court in *Loew's* offered at least two alternative grounds for its result, based on record evidence of anticompetitive effects and the District Court's findings. 371 U.S. at 48-49.

The ABA thus submits that, in contrast to the stark choice perceived by the Federal Circuit, an open question remains whether the presumption of market power imposed by the Federal Circuit here was ever mandated by *Loew's*.

IV. IF IT IS NECESSARY TO OVERRULE THE DECISION IN *LOEW'S*, THE COURT SHOULD DO SO

If the Court construes its decision in *Loew's* as necessarily resting on a presumption of actual market power where the tying product is patented, the ABA believes that review should be granted so that *Loew's* may be overruled. Elimination of the market power presumption is proper for several reasons:

First, the presumption has no basis in economic reality and no defense as a matter of legal policy. There is essential unanimity among courts, enforcement agencies, and commentators that application of such a presumption has the potential to reduce wholly legitimate and socially beneficial incentives to innovate. *See* Pet. at 17-20 and 24-28.

Second, the decision in *Loew's* did not consider the effects of such a presumption on the owners of intellectual property or on the formation of legitimate and beneficial tying arrangements. To the contrary, the *Loew's* Court began its discussion with the (then) familiar observation that "[t]ying agreements serve hardly any purpose beyond the suppression of competition." 371 U.S. at 44. Such agreements harm competition because they "destroy the free access of competing suppliers of the tied product to the consuming market." *Id.* at 45. Neither sentiment has survived this

Court's subsequent decisions. As Judge Easterbrook has noted, "[t]he Supreme Court emphasized in *Hyde* . . . and again in [*NCAA*] that tying may have competitive benefits."[22]

Third, as also discussed, *Loew's* did not purport to create a presumption of genuine market power -- specifically denying that actual market power was required. 371 U.S. at 45 & n.4 ("Since the requisite economic power may be found on the basis of either uniqueness or consumer appeal, . . . [a tying claim] does not necessitate a demonstration of market power . . . .") And the "presumption of uniqueness" that *Loew's did* articulate, *id.* at 48, was rendered irrelevant by the subsequent decisions of this Court.

Fourth, those courts that have derived from *Loew's* a presumption of actual market power have encountered great difficulty in applying the test to real cases. The Federal Circuit's opinion here provides two examples. First, because it had converted the *Loew's* presumption to one of *market* power, the Court felt it needed to find a "presumed" geographic market as well: "Thus a patent presumptively defines the relevant market as the nationwide market for the patented product itself . . . ." 396 F.3d at 1352. Where this "nationwide" market comes from is unclear. There is certainly no such statement in *Loew's*. Nor is there reason to believe that all products with U.S. patents compete in the same geographic market.

The second example arises when one considers how, if at all, the presumption may be rebutted. On this point, the Court of Appeals felt bound by the language in *Loew's* that the "mere presence of competing substitutes for the tying product" is insufficient to destroy the presumption. *Id.* So the Court stated that the "presumption can *only* be rebutted by expert testimony or other credible economic evidence of

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[22] *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665, 673 (7th Cir. 1985) (plaintiffs failed to show market power where their "principal argument was uniqueness"), *cert. denied*, 475 U.S. 1129 (1986).

the cross-elasticity of demand, the area of effective competition, or other evidence of lack of market power." *Id.* (emphasis added). To the extent that this test requires more than showing that there are ample substitutes for the tying product, it is inconsistent with the holding of this Court in *Jefferson Parish* that a 30 percent market share was insufficient to show market power. Indeed, this test is unique to antitrust law, where both the actual "presence of competing substitutes" (measured by market share) and the *potential* "presence of competing substitutes" (measured by barriers to entry) are central to any finding of market power.

In sum, the market power presumption that some courts have extracted from *Loew's* is contrary to economic reality, derived from outdated doctrines since rejected by this Court, inconsistent with the reasoning of *Loew's* itself, and inadequate for sensible application to real cases. If any prior decision of this Court mandates such a presumption, it should be overruled.

CONCLUSION

For the reasons stated herein, the ABA respectfully requests that the Court grant the petition for *certiorari* and rule that intellectual property rights do not, by themselves, confer market power.

Respectfully submitted,

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No. 04-1329

IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS, INC. AND TRIDENT, INC.,

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

MOTION FOR LEAVE TO FILE BRIEF AND BRIEF OF *AMICUS CURIAE* AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF PETITIONERS

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May 4, 2005

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MOTION FOR LEAVE TO FILE *AMICUS CURIAE* BRIEF

The American Intellectual Property Law Association ("AIPLA") respectfully moves for leave to file the attached *amicus curiae* brief, pursuant to Supreme Court Rule 37.2(b), in favor of granting the petition for a writ of *certiorari* to review *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, 396 F.3d 1342 (Fed. Cir. 2005).

The AIPLA is a voluntary bar association of over 16,000 attorneys who daily work with patents, trademarks, copyrights, and trade secrets, and with the legal issues that the intellectual property presents. The AIPLA's members include attorneys in private and corporate practice and in government service who secure, license, enforce, and defend against enforcement of intellectual property rights. They regularly counsel and advise their clients regarding, *inter alia*, the requirements of the antitrust laws for patent licensing arrangements. The arrangements include those that may be argued to tie the sale of patented and unpatented products. The Federal Circuit panel's decision below materially impacts those licensing arrangements.

The Court should grant the AIPLA leave to file the attached *amicus curiae* brief, because, through its diverse representation of the intellectual property bar, the AIPLA brings a broad perspective and extensive experience to the important issues raised by the decision below. The AIPLA offers the Court a unique and balanced perspective, because the AIPLA's members represent parties on both sides: (1) patent owners who license or enforce their intellectual property rights and, as a result, may find themselves accused of violating the antitrust laws; and (2) licensees or accused infringers who may respond to infringement threats or suits

with claims that the patent owner's licensing arrangements violate the antitrust laws.

Through their work, the AIPLA's members have practical experience with the factual predicate underlying the legal question that the Petition presents: whether the presumption of market power in a relevant market for the patented product—based solely on the existence of a patent—has a basis in fact.

In the AIPLA's practical experience, it does not. Instead, virtually all patents cover improvements to existing products that represent modest, incremental advances and rarely claim pioneering inventions that open new markets. Routinely, patents do not define relevant markets and do not provide substantial market power.

The AIPLA seeks to bring to the Court's attention information that should help the Court in resolving the split on this issue between the Federal Circuit panel decision, on the one hand, and decisions by other panels of the Federal Circuit and decisions by other circuit courts of appeals, on the other hand.

The AIPLA sought consent to file an *amicus curiae* brief from the counsel of record for all parties, pursuant to Supreme Court Rule 37.2(a). Counsel for Petitioner consented, but counsel for Respondent did not. Copies of the responses received from the parties are being filed with the Clerk.

Accordingly, the AIPLA respectfully requests that the Court grant the AIPLA's motion for leave to file the attached *amicus curiae* brief and that the Court grant the writ of *certiorari*.

Respectfully submitted,

Dated: May 4, 2005

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STATEMENT OF INTEREST[1]

The AIPLA has no interest in any party to this litigation or stake in the outcome of this case, other than its interest in seeking a correct and consistent interpretation of the law affecting intellectual property.

SUMMARY OF ARGUMENT

In *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, 396 F.3d 1342, 1352 (Fed. Cir. 2005), a three-judge panel of the Federal Circuit applied a presumption of market power in a relevant market. The panel applied the presumption in the context of an alleged Sherman Act § 1 antitrust violation based on tying of a patented product to an unpatented product. Specifically, the panel held that the mere existence of a patent on a product creates a rebuttable presumption that the patent owner has market power in the relevant market for the patented product itself. In so holding, the panel concluded that prior decisions of this Court require that presumption.

In reality, however, the mere issuance of a patent does not convey market power in a relevant market, except in very rare cases. Consequently, the presumption that patents nearly always define a market unto themselves and provide sufficient power to raise prices or restrict output is

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[1] In accordance with Supreme Court Rule 37.6, the AIPLA states that this brief was not authored, in whole or in part, by counsel to a party to the instant Petition, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the AIPLA or its counsel.

not based on actual experience. Because the presumption does not reflect market realities, the Court should reject it.

Moreover, the presumption will encourage routine filing of tying antitrust claims, because the accusers would not need to confront market realities. Those filings may arise not only in cases of express ties, but also where a license arrangement may be argued to have a tying effect. The increased risk of treble-damage antitrust liability may discourage patent owners from enforcing their patent rights, and thus may lessen the value of those rights and the incentive to make and disclose innovations to the public.

The detrimental effect of the panel's decision extends to all antitrust tying allegations in the normal context in which patent claims are raised, *i.e.*, where the complaint raises claims of patent infringement, validity, or enforceability. Because the Federal Circuit has exclusive appellate jurisdiction in those cases, its presumption rule will apply.

Moreover, the treatment of market power by the panel below, in the context of tying under Sherman Act § 1, diverges from the treatment of that issue by other Federal Circuit panels that rejected or did not apply the presumption in related antitrust and misuse contexts. Because the panel below concluded that decisions of this Court require the presumption, only this Court can resolve that schism in the Federal Circuit's treatment of the identical issue. In addition, the panel's application of the presumption diverges from decisions of the Sixth and Seventh Circuits rejecting the presumption in related intellectual property areas.

The decision below addresses an issue of exceptional importance with widespread impact. It concerns not only the

administration of the antitrust laws but also the potential for overly aggressive private treble-damage antitrust enforcement that could lessen the incentives for innovation.

The AIPLA takes no position on the merits of this case or who should prevail on the present facts in the absence of a presumption of market power. Instead, the AIPLA urges the Court to grant the petition for *certiorari* and to hold that the mere existence of a patent should not create any presumption of a relevant market or of market power in a relevant market.

ARGUMENT

I. The Federal Circuit Panel's Decision Raises Issues of Exceptional Importance

The Petitioner set forth the facts of the case and described the trial court and appellate decisions below, which the AIPLA will not repeat. *See* Petition at 3-8.

Applying the presumption in the context of an alleged tying violation of Sherman Act § 1, the Federal Circuit panel held that:

> [A] patent presumptively defines the relevant market as the nationwide market for the patented product itself and creates a presumption of power within this market. Once the plaintiff establishes a patent tying agreement, it is the defendant's burden to rebut the presumption of market power and consequent illegality that arises from patent tying.

Independent Ink, 396 F.3d at 1352. In applying this presumption, the panel relied upon and concluded that it was constrained by this Court's decisions in *International Salt Co. v. United States*, 332 U.S. 392, 395-96 (1947), and *United States v. Loew's Inc.*, 371 U.S. 38, 45-46 (1962). *See Independent Ink*, 396 F.3d at 1346-52.

A. The Presumption Has No Factual Basis, in the AIPLA's Experience

The Federal Circuit panel's decision actually applies two related presumptions: (1) that a patented product[2] defines a relevant market for the patented product itself in the United States; and (2) that the patent provides market power in that relevant market. *See Independent Ink*, 396 F.3d at 1352. The first presumption typically will control, because if the patented product were to define a product market unto itself, the patent likely would provide substantial economic power in that market.

This Court has instructed that "[l]egal presumptions that rest on formalistic distinctions rather than actual market realities are generally disfavored in antitrust law." *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S., 451, 466-67 (1992). In the AIPLA's practical experience, neither presumption rests on actual market realities.

In that experience, virtually all patents cover improvements to existing products that represent modest, incremental advances. Rarely do they claim pioneering inventions that open entirely new economic markets. Thus, the issuance of a patent, standing alone, only rarely affords

[2] Patents provide protection for both products and processes. For simplicity, this brief refers only to products.

its owner or licensor any appreciable market power in a relevant product market in the antitrust sense, *i.e.*, the power to raise prices or restrict output in that market. *See Kodak*, 504 U.S. at 464 (explaining that market power "has been defined as 'the ability of a single seller to raise price and restrict output.'" (quoted source omitted).)

In the AIPLA's experience, patented improvements typically compete with and provide alternatives to existing products that are already established in, or that may even dominate, the marketplace. Because they routinely are interchangeable with existing products, patented improvements seldom constitute a relevant product market unto themselves. *See Brown Shoe Co. v. United States*, 370 U.S. 294, 325 (1962) ("The outer boundaries of a product market are determined by the reasonable interchangeability of use or the cross-elasticity of demand between the product itself and substitutes for it."). Thus, the presumption that a patented product defines a relevant market for antitrust purposes has no basis in fact.

Routine interchangeability also precludes any factual basis for the presumption of market power in a relevant product market. In competing as an alternative to existing products, a patented product seldom dominates the marketplace.

As a result, contrary to the presumption, a patent rarely defines a relevant product market or creates market power in any relevant market, in the AIPLA's practical experience.

Other Federal Circuit panels have recognized this economic reality in the contexts of other antitrust laws and patent misuse. *See, e.g., C.R. Bard, Inc. v. M3 Sys., Inc.*, 157

F.3d 1340, 1368 (Fed. Cir. 1998) (Sherman Act § 2; "It is not presumed that the patent-based right to exclude necessarily establishes market power in antitrust terms. The virtually unlimited variety and scope of patented inventions and market situations militate against *per se* rules in these complex areas."); *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997) (not applying presumption in patent misuse context; "[I]n the absence of market power, even a tying arrangement does not constitute patent misuse."); *Abbott Labs. v. Brennan*, 952 F.2d 1346, 1354 (Fed. Cir. 1991) (Sherman Act § 2; "A patent does not of itself establish a presumption of market power in the antitrust sense. The commercial advantage gained by new technology and its statutory protection by patent do not convert the possessor thereof into a prohibited monopolist."); *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 875 n.9 (Fed. Cir. 1985) (Sherman Act § 2; "[N]ot every patent confers market power." (quoted source omitted)); *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1367 (Fed. Cir. 1984) (Sherman Act § 2; "[P]atent rights are not legal monopolies in the antitrust sense of that word.").

Both the legislative and executive branches have indicated that the presumption is not factually supportable. In enacting 35 U.S.C. § 271(d)(5) (2000), Congress specifically required proof of market power in a relevant market to establish patent misuse or illegal extension of the patent right. Similarly, the Federal Trade Commission and the Department of Justice have concluded that market power cannot and should not be presumed. "Although the intellectual property right confers the power to exclude with respect to the *specific* product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power." United States Department of

Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* § 2.2 (Apr. 6, 1995), *available at* http://www.usdoj.gov/atr/public/guidelines/ipguide.htm (last visited May 3, 2005).

Thus, the essential factual premise of the Federal Circuit panel's decision, and of prior decisions by this Court in *International Salt*, 332 U.S. at 395-96, and *Loew's*, 371 U.S. at 45-46, has no factual basis, in the AIPLA's practical experience. Because the presumption does not rest on "actual market realities," the Court should reject it. *See Kodak*, 504 U.S. at 466-67.

B. The Market Power Presumption Eliminates a Critical Limitation on Application of the *Per Se* Rule, Which Should Not Be Compromised

The market power presumption can result in *per se* antitrust illegality if the patent owner does not rebut the presumption. This is because, once the plaintiff meets the market power element, the rest of the key elements of a tying offense may be undisputable or simply proved: two separate products that are tied together in an arrangement that affects a "not insubstantial" amount of commerce in the market for the tied product. *N. Pac. Ry. Co. v. United States*, 356 U.S. 1, 6 (1958) (concluding that tying arrangements are "unreasonable in and of themselves whenever a party has sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product and a 'not insubstantial' amount of interstate commerce is affected."); *see Kodak*, 504 U.S. at 461-62. Thus, the presumption may shift certain cases from the Rule of Reason to *per se* standards for determining illegality of patent tying arrangements under Sherman Act § 1.

Such a result would run counter to the trend of this Court's antitrust decisions. Over the past thirty years, the Rule of Reason has developed into the preferred method for analyzing the potential for competitive harm in antitrust cases. *See, e.g., Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 49 (1977); *State Oil Co. v. Kahn*, 522 U.S. 3, 10 (1997). It affords substantial flexibility to prohibit practices that harm competition, while permitting practices that do not harm competition or that affirmatively enhance competition.

This Court has departed from the Rule of Reason and applied a *per se* rule to tying only in the narrow situation in which the seller is found to have market power in the relevant market for the tying product. *See, e.g., Kodak*, 504 U.S. at 464-78. In such cases, the antitrust plaintiff must (1) define the relevant market and (2) establish that the antitrust defendant has appreciable market power in the relevant market. *See Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 18 (1984); *Kodak*, 504 U.S. at 462 (explaining that "'appreciable economic power' in the tying product market" must be shown for a violation of Sherman Act § 1). This Court has recognized that tying is not necessarily *per se* unlawful. *See, e.g., Times Picayune Publ'g Co. v. United States*, 345 U.S. 594 (1953); *Standard Oil Co. v. United States*, 337 U.S. 293, 306 (1949); *Jefferson Parish*, 466 U.S. at 16-18. An accurate analysis of market power in a relevant market thus is critical to the proper application of the Rule of Reason.

The market power requirement guards against a rigid application of *per se* analysis in tying cases. Like any other limitation on the *per se* rule, it should be compromised only in rare instances, specifically where the challenged practice has been shown—through experience—to virtually always

harm competition. *See Continental T.V.*, 433 U.S. at 58-59 (explaining that any "departure from the rule-of-reason standard must be based upon demonstrable economic effect rather than . . . upon formalistic line drawing"); *N. Pac.*, 356 U.S. at 5 (explaining that *per se* analysis is appropriate only for practices that have a "pernicious effect on competition and lack of redeeming virtue"). The market power presumption applied by the Federal Circuit panel below, however, has not been validated by experience, as decisions of this Court require. *See, e.g., Kodak*, 504 U.S. at 466-67.

There is no reason why the Court's approach to tying should be different where patent licensing is involved. The patent licensing context presents the same seller-buyer relationships as exist in typical tying cases under both the Rule of Reason and *per se* analyses: the patent owner sells licenses to its patents and the licensee buys those licenses. When the seller does not have market power in the tying product, the Rule of Reason is the proper mode of analysis even in tying cases. *See Jefferson Parish*, 466 U.S. at 29 (explaining that an antitrust plaintiff must prove a Rule-of-Reason violation in the absence of *per se* liability).

Moreover, positive benefits may flow from a variety of patent tying arrangements, such as efficiencies in ease of calculating license fees or in distribution. *See, e.g., Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 834 (1950) (holding non-mandatory package licensing of patents was not patent misuse), *overruled in part on other grounds by, Lear, Inc. v. Adkins*, 395 U.S. 653 (1969); *United States v. Jerrold Elecs. Corp.*, 187 F. Supp. 545, 555-58 (E.D. Pa. 1960) (holding tying was not antitrust violation for entrant into new industry), *aff'd per curiam*, 365 U.S. 567 (1961).

C. By Effectively Shifting the Burden to the Patent Owner, the Presumption Encourages Accused Infringers Routinely To Allege Tying Antitrust Counterclaims

Accused infringers routinely used to plead antitrust counterclaims. Those counterclaims have significantly diminished in frequency, however, as the Federal Circuit and this Court have narrowed the areas in which an antitrust violation can be pleaded and proven without spending the very substantial resources needed to analyze and prove market realities.

Patent litigation already entails serious risk for the patent owner. According to a recent study, at the district court level, patent owners win only about fifty-eight percent of all patent suits, only about two-thirds of patents are held valid and about the same portion are held infringed, and the patent owners' win rate varies significantly depending on the jurisdiction in which the suit is brought. *See* Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. Rev. 889, 915-17 (2001).

High costs to litigate infringement cases already prevail. The AIPLA conducts an annual economic survey of its members, which litigating parties regularly use as a basis for budgeting infringement litigation, as well as in determining the reasonableness of attorney's fees and costs. *See, e.g., View Eng'g, Inc. v. Robotic Vision Sys., Inc.*, 208 F.3d 981, 987-88 (Fed. Cir. 2000) (citing survey for attorney's fees); *Yurman Designs, Inc. v. PAJ, Inc.*, 125 F. Supp. 2d 54, 56 (S.D.N.Y. 2000) (same). The 2003 survey, the most recent year for which results are available, shows the median costs for an infringement suit are approximately

$4,000,000 and the top twenty-five percent of the suits cost about $6,000,000. *See* Appendix attached hereto at A2, American Intellectual Property Law Assn., *2003 Report of the Economic Survey* 94 tbl. 22 (2003).

In the AIPLA's experience, antitrust litigation costs add substantially to the total. Discovery alone in a typical antitrust case often involves hundreds of thousands of documents. The magnitude of these costs represents a substantial burden on any company, regardless of size. They may be crippling to a mid-sized company, and prohibitive to small businesses, start-up companies, and individual inventors.

A tying antitrust claim without the presumption necessarily requires both sides to explore market issues. But the presumption shifts the bulk of the costs of the antitrust litigation to the patent owner. The presumption thus unfairly handicaps the patent owner by easing the burden for the antitrust plaintiff, thereby increasing the risk to the patent owner.

The presumption imposes a substantial evidentiary burden for the patent owner, because the Federal Circuit panel's decision limits the proof that can be offered. Specifically, the panel held that, to rebut the presumption, it is not enough to show the availability of alternatives to the tying arrangement. Rather, the patent owner must establish the price elasticity of the relevant products, which typically is expensive and time consuming. "The presumption can only be rebutted by expert testimony or other credible economic evidence of the cross-elasticity of demand, the area of effective competition, or other evidence of lack of market power." *Independent Ink*, 396 F.3d at 1352.

Thus, although the market power presumption may simplify that issue for the antitrust plaintiff, it forces the patent owner to introduce substantial, complex, and costly proof just to survive summary judgment. Yet, that shifting of cost and risk is not justified by practical experience.

Moreover, the presumption may provide an incentive to circumvent the limitations of a misuse defense by repackaging it as an antitrust claim. Under 35 U.S.C. § 271(d)(5) (2000), to establish misuse, the accused infringer must establish market power and would not receive the significant benefit of the presumption.

The combined effect of these factors skews the balance of power between the patent owner and the antitrust plaintiff substantially in favor of the antitrust plaintiff. This can have widespread implications for many patent owners, because numerous arrangements involving patents can be characterized as ties. Licensing of numerous patents for a royalty based on total sales, for example, is a common practice that courts have subjected to an antitrust tying analysis. *See, e.g., Automatic Radio*, 339 U.S. at 834; *Zenith*, 395 U.S. at 137-39.

The increased cost and risk flowing from the presumption can coerce patent owners into compromising valid infringement claims and settling cases for less than they otherwise would. According to a recent study, about 95 percent of patent cases settle before the end of trial. *See* Jean O. Lanjouw & Mark Schankerman, *Protecting Intellectual Property Rights: Are Small Firms Handicapped?*, 47 J.L. & Econ. 45, 56 (Apr. 2004). Worse yet, in view of the enhanced risk of treble damage liability, the presumption may compel some patent owners not to enforce their rights at all. That would diminish the value of the exclusive rights

afforded by a patent, which in turn may impair the willingness of inventors to innovate and disclose their inventions to the public through the patent system. The effect is not limited merely to cases of express ties, but includes licenses in which the practical effect of a restriction may arguably create a tie.

II. Reversal Would Resolve Divergences Between Federal Circuit Panels' Decisions, and Between the Federal Circuit and Other Circuits

The Federal Circuit panel's decision diverges not only from decisions by other Federal Circuit panels that rejected or did not apply the presumption in related contexts, but also from decisions of other circuit courts of appeals that have declined to apply such a presumption.

The Federal Circuit is uniquely positioned among the circuit courts of appeals to handle patent-antitrust cases. Vested by Congress with sole nationwide jurisdiction over patent appeals in cases initiated with patent claims—which are the vast majority of cases involving patents—the Federal Circuit receives appeals that would otherwise have been decided by regional circuit courts of appeals. *See* 28 U.S.C. § 1295(a)(1) (2000). All appealed cases that raise a patent claim in the complaint will flow to the Federal Circuit. *See Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 829 (2002). Thus, divergence between the law applied by different panel decisions of the Federal Circuit is akin to diverging decisions among the regional circuits.

A dominant factor in creating the Federal Circuit was to bring uniformity to the treatment of patent cases, including cases involving antitrust claims that are within its jurisdiction. *See Noblepharma AB v. Implant Innovations,*

Inc., 141 F.3d 1059, 1068 (Fed. Cir. 1998); *Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564, 1574 (Fed. Cir. 1984). Yet, a substantial contrast now exists between Federal Circuit panels' decisions on the question of whether a patent creates a presumption of market power in a relevant market. Specifically, the decision below stands out from other Federal Circuit panels' decisions that hold that the market power presumption does not exist in the context of attempted or actual monopolization under Sherman Act § 2, or that did not apply the presumption in the context of patent misuse. *See, e.g., Bard,* 157 F.3d at 1368 (Sherman Act § 2); *Virginia Panel*, 133 F.3d at 869 (misuse); *Abbott Labs.*, 952 F.2d at 1354 (Sherman Act § 2); *Loctite*, 781 F.2d at 875 n.9 (Sherman Act § 2); *Am. Hoist*, 725 F.2d at 1367 (Sherman Act § 2).

In the decision below, the panel recognized the contrast, but concluded that controlling precedent of this Court constrained it to follow the presumption. *See Independent Ink*, 396 F.3d at 1349 n.8, 1351. If that precedent is controlling, the Federal Circuit, even acting *en banc*, cannot cure this schism without guidance from this Court.

This divergence at the Federal Circuit has practical effects that increase the risk to the patent owner even further. It can create confusion in the trial of patent and antitrust issues. For example, where an accused infringer also asserts a Sherman Act § 2 attempted monopolization claim, the jury will be asked to apply the presumption to the Sherman Act § 1 tying claim, but not to the Sherman Act § 2 attempted monopolization claim. *See Independent Ink*, 396 F.3d at 1353. The same can occur where an accused infringer asserts a misuse claim.

In addition, the shifting of burdens of initial proof may create an anomaly that it would be more difficult to establish the equitable defense of patent misuse than an affirmative antitrust violation. Yet, misuse encompasses conduct broader than an antitrust violation. "[A]s the Supreme Court has said, the patentee's act may constitute patent misuse without rising to the level of an antitrust violation." *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 668 (Fed. Cir. 1986), citing *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 140 (1969). Moreover, misuse cannot exist where the effect of the licensing does not improperly restrain competition. "'To sustain a misuse defense involving a licensing arrangement not held to have been *per se* anticompetitive by the Supreme Court, a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market.'" *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 706 (Fed. Cir. 1992), quoting *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001-02 (Fed. Cir. 1986).

The Federal Circuit panel's decision below also contrasts with decisions of other circuit courts of appeals that have rejected the presumption in related intellectual property contexts. While the Federal Circuit panel below adhered to the principles articulated more than 50 years ago, other circuits have declined to continue to follow *International Salt* and *Loew's* regarding the treatment of tying arrangements involving patent rights, as the Federal Circuit panel recognized. *See Independent Ink*, 396 F.3d at 1350. In the context of Sherman Act § 1 tying cases, the Sixth and Seventh Circuits have recognized that the presumption is not justified by substantial economic experience and declined to apply any presumption. *See A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673, 676 (6th Cir.1986)

(copyright antitrust); *USM Corp. v. SPS Techns., Inc.*, 694 F.2d 505, 511 (7th Cir. 1982) (patent misuse). The Federal Circuit panel also noted that the Second, Ninth, and Eleventh Circuits have indicated the opposite. *See Independent Ink*, 396 F.3d at 1352, citing *MCA Television Ltd. v. Pub. Interest Corp.*, 171 F.3d 1265, 1276-79 (11th Cir. 1999) (copyright antitrust), *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336, 1344 (9th Cir. 1984) (copyright antitrust), and *Susser v. Carvel Corp.*, 332 F.2d 505, 521 (2d Cir. 1964) (trademark antitrust). *See also* Petition at 22-23 (citing other appellate and district court cases).

Review by this Court would resolve these diverging rules, both between Federal Circuit panels and among circuit courts of appeals.

III. Conclusion

For the foregoing reasons, the AIPLA respectfully requests that the Court grant *certiorari* to review the Federal Circuit panel's decision. The Court should grant that review to clarify that tying arrangements involving patent and other intellectual property rights are assessed under the Rule of Reason without any presumption of market power in a relevant market arising merely from the issuance of a patent.

Respectfully submitted,

Dated: May 4, 2005

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APPENDIX

[EXCERPT]

AIPLA

Report of the Economic Survey 2003

PREPARED UNDER DIRECTION OF
LAW PRACTICE MANAGEMENT COMMITTEE

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A1

TABLE 22. Estimated Costs of Litigation, by Location of Primary Place of Work *(continued)*

		Location of Respondent's Primary Place of Work												
	Total Survey	Boston Area	NYC Area	Philadelphia-Wilmington	Washington DC Area	Other East	Metro Southeast	Other Southeast	Chicago Area	Minneapolis-St. Paul	Other Central	Texas	California	Other West
Estimate of Total Cost, Through End of Discovery and Inclusive, In a Patent Infringement Suit														
More than $25 million at risk														
End of discovery														
Number Reporting	253	10	17	14	33	16	9	7	23	9	34	19	42	19
% of total		*4%*	*7%*	*6%*	*13%*	*6%*	*4%*	*3%*	*9%*	*4%*	*13%*	*8%*	*17%*	*8%*
75th percentile ($000's)	$4,000	$3,000	$3,000	$4,000	$5,000	$3,000	$3,000	$2,000	$3,500	$2,000	$3,000	$6,000	$4,000	$2,000
Median ($000's)	$2,500	$2,500	$2,000	$4,000	$3,000	$1,000	$2,000	$1,000	$2,500	$1,500	$1,350	$4,000	$3,000	$1,500
25th percentile ($000's)	$1,000	$1,500	$1,000	$2,500	$2,000	$500	$1,000	$500	$1,500	$1,000	$750	$2,000	$2,000	$1,000
Inclusive, all costs														
Number Reporting	258	11	17	15	34	17	9	7	23	9	33	21	42	19
% of total		*4%*	*7%*	*6%*	*13%*	*7%*	*3%*	*3%*	*9%*	*3%*	*13%*	*8%*	*16%*	*7%*
75th percentile ($000's)	$5,996	$5,494	$5,009	$5,007	$7,990	$4,010	$5,006	$7,994	$5,494	$3,506	$6,506	$7,997	$6,006	$3,508
Median ($000's)	$3,995	$4,500	$3,750	$4,995	$5,000	$3,000	$3,500	$1,300	$3,506	$2,500	$2,250	$5,009	$4,997	$3,010
25th percentile ($000's)	$2,306	$2,506	$2,244	$2,506	$3,010	$1,991	$2,494	$806	$2,306	$1,994	$1,495	$4,003	$3,508	$2,206
Estimate of Total Cost, Through End of Discovery and Inclusive, In a Trademark Infringement Suit														
Less than $1 million at risk														
End of discovery														
Number Reporting	170	5	10	3	17	13	3	8	19	5	35	15	16	20
% of total		*3%*	*6%*	*2%*	*10%*	*8%*	*2%*	*5%*	*11%*	*3%*	*21%*	*9%*	*9%*	*12%*
75th percentile ($000's)	$248	$251	$251		$301	$201		$138	$250	$251	$151	$251	$375	$175
Median ($000's)	$150	$200	$200	$250	$152	$101	$120	$88	$199	$201	$100	$200	$200	$149
25th percentile ($000's)	$98	$99	$90		$148	$49		$51	$102	$198	$59	$149	$100	$99
Inclusive, all costs														
Number Reporting	166	5	9	3	18	13	3	8	17	5	35	15	14	20
% of total		*3%*	*5%*	*2%*	*11%*	*8%*	*2%*	*5%*	*10%*	*3%*	*21%*	*9%*	*8%*	*12%*
75th percentile ($000's)	$401	$801	$451		$500	$302		$205	$451	$451	$274	$401	$751	$349
Median ($000's)	$298	$400	$350	$750	$401	$298	$200	$138	$302	$350	$225	$302	$450	$251
25th percentile ($000's)	$198	$159	$174		$226	$119		$78	$269	$299	$102	$298	$300	$201

MAY 4 - 2005

No. 04-1329

IN THE
Supreme Court of the United States

ILLINOIS TOOL WORKS, INC. AND TRIDENT, INC.,

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

MOTION FOR LEAVE TO FILE BRIEF AND BRIEF OF *AMICUS CURIAE* AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF PETITIONERS

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MOTION FOR LEAVE TO FILE *AMICUS CURIAE* BRIEF

The American Intellectual Property Law Association ("AIPLA") respectfully moves for leave to file the attached *amicus curiae* brief, pursuant to Supreme Court Rule 37.2(b), in favor of granting the petition for a writ of *certiorari* to review *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, 396 F.3d 1342 (Fed. Cir. 2005).

The AIPLA is a voluntary bar association of over 16,000 attorneys who daily work with patents, trademarks, copyrights, and trade secrets, and with the legal issues that the intellectual property presents. The AIPLA's members include attorneys in private and corporate practice and in government service who secure, license, enforce, and defend against enforcement of intellectual property rights. They regularly counsel and advise their clients regarding, *inter alia*, the requirements of the antitrust laws for patent licensing arrangements. The arrangements include those that may be argued to tie the sale of patented and unpatented products. The Federal Circuit panel's decision below materially impacts those licensing arrangements.

The Court should grant the AIPLA leave to file the attached *amicus curiae* brief, because, through its diverse representation of the intellectual property bar, the AIPLA brings a broad perspective and extensive experience to the important issues raised by the decision below. The AIPLA offers the Court a unique and balanced perspective, because the AIPLA's members represent parties on both sides: (1) patent owners who license or enforce their intellectual property rights and, as a result, may find themselves accused of violating the antitrust laws; and (2) licensees or accused infringers who may respond to infringement threats or suits

with claims that the patent owner's licensing arrangements violate the antitrust laws.

Through their work, the AIPLA's members have practical experience with the factual predicate underlying the legal question that the Petition presents: whether the presumption of market power in a relevant market for the patented product—based solely on the existence of a patent—has a basis in fact.

In the AIPLA's practical experience, it does not. Instead, virtually all patents cover improvements to existing products that represent modest, incremental advances and rarely claim pioneering inventions that open new markets. Routinely, patents do not define relevant markets and do not provide substantial market power.

The AIPLA seeks to bring to the Court's attention information that should help the Court in resolving the split on this issue between the Federal Circuit panel decision, on the one hand, and decisions by other panels of the Federal Circuit and decisions by other circuit courts of appeals, on the other hand.

The AIPLA sought consent to file an *amicus curiae* brief from the counsel of record for all parties, pursuant to Supreme Court Rule 37.2(a). Counsel for Petitioner consented, but counsel for Respondent did not. Copies of the responses received from the parties are being filed with the Clerk.

Accordingly, the AIPLA respectfully requests that the Court grant the AIPLA's motion for leave to file the attached *amicus curiae* brief and that the Court grant the writ of *certiorari*.

Respectfully submitted,

Dated: May 4, 2005

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STATEMENT OF INTEREST[1]

The AIPLA has no interest in any party to this litigation or stake in the outcome of this case, other than its interest in seeking a correct and consistent interpretation of the law affecting intellectual property.

SUMMARY OF ARGUMENT

In *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, 396 F.3d 1342, 1352 (Fed. Cir. 2005), a three-judge panel of the Federal Circuit applied a presumption of market power in a relevant market. The panel applied the presumption in the context of an alleged Sherman Act § 1 antitrust violation based on tying of a patented product to an unpatented product. Specifically, the panel held that the mere existence of a patent on a product creates a rebuttable presumption that the patent owner has market power in the relevant market for the patented product itself. In so holding, the panel concluded that prior decisions of this Court require that presumption.

In reality, however, the mere issuance of a patent does not convey market power in a relevant market, except in very rare cases. Consequently, the presumption that patents nearly always define a market unto themselves and provide sufficient power to raise prices or restrict output is

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[1] In accordance with Supreme Court Rule 37.6, the AIPLA states that this brief was not authored, in whole or in part, by counsel to a party to the instant Petition, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the AIPLA or its counsel.

not based on actual experience. Because the presumption does not reflect market realities, the Court should reject it.

Moreover, the presumption will encourage routine filing of tying antitrust claims, because the accusers would not need to confront market realities. Those filings may arise not only in cases of express ties, but also where a license arrangement may be argued to have a tying effect. The increased risk of treble-damage antitrust liability may discourage patent owners from enforcing their patent rights, and thus may lessen the value of those rights and the incentive to make and disclose innovations to the public.

The detrimental effect of the panel's decision extends to all antitrust tying allegations in the normal context in which patent claims are raised, *i.e.*, where the complaint raises claims of patent infringement, validity, or enforceability. Because the Federal Circuit has exclusive appellate jurisdiction in those cases, its presumption rule will apply.

Moreover, the treatment of market power by the panel below, in the context of tying under Sherman Act § 1, diverges from the treatment of that issue by other Federal Circuit panels that rejected or did not apply the presumption in related antitrust and misuse contexts. Because the panel below concluded that decisions of this Court require the presumption, only this Court can resolve that schism in the Federal Circuit's treatment of the identical issue. In addition, the panel's application of the presumption diverges from decisions of the Sixth and Seventh Circuits rejecting the presumption in related intellectual property areas.

The decision below addresses an issue of exceptional importance with widespread impact. It concerns not only the

administration of the antitrust laws but also the potential for overly aggressive private treble-damage antitrust enforcement that could lessen the incentives for innovation.

The AIPLA takes no position on the merits of this case or who should prevail on the present facts in the absence of a presumption of market power. Instead, the AIPLA urges the Court to grant the petition for *certiorari* and to hold that the mere existence of a patent should not create any presumption of a relevant market or of market power in a relevant market.

ARGUMENT

I. The Federal Circuit Panel's Decision Raises Issues of Exceptional Importance

The Petitioner set forth the facts of the case and described the trial court and appellate decisions below, which the AIPLA will not repeat. *See* Petition at 3-8.

Applying the presumption in the context of an alleged tying violation of Sherman Act § 1, the Federal Circuit panel held that:

> [A] patent presumptively defines the relevant market as the nationwide market for the patented product itself and creates a presumption of power within this market. Once the plaintiff establishes a patent tying agreement, it is the defendant's burden to rebut the presumption of market power and consequent illegality that arises from patent tying.

Independent Ink, 396 F.3d at 1352. In applying this presumption, the panel relied upon and concluded that it was constrained by this Court's decisions in *International Salt Co. v. United States*, 332 U.S. 392, 395-96 (1947), and *United States v. Loew's Inc.*, 371 U.S. 38, 45-46 (1962). *See Independent Ink*, 396 F.3d at 1346-52.

A. The Presumption Has No Factual Basis, in the AIPLA's Experience

The Federal Circuit panel's decision actually applies two related presumptions: (1) that a patented product[2] defines a relevant market for the patented product itself in the United States; and (2) that the patent provides market power in that relevant market. *See Independent Ink*, 396 F.3d at 1352. The first presumption typically will control, because if the patented product were to define a product market unto itself, the patent likely would provide substantial economic power in that market.

This Court has instructed that "[l]egal presumptions that rest on formalistic distinctions rather than actual market realities are generally disfavored in antitrust law." *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S., 451, 466-67 (1992). In the AIPLA's practical experience, neither presumption rests on actual market realities.

In that experience, virtually all patents cover improvements to existing products that represent modest, incremental advances. Rarely do they claim pioneering inventions that open entirely new economic markets. Thus, the issuance of a patent, standing alone, only rarely affords

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[2] Patents provide protection for both products and processes. For simplicity, this brief refers only to products.

its owner or licensor any appreciable market power in a relevant product market in the antitrust sense, *i.e.*, the power to raise prices or restrict output in that market. *See Kodak*, 504 U.S. at 464 (explaining that market power "has been defined as 'the ability of a single seller to raise price and restrict output.'" (quoted source omitted).)

In the AIPLA's experience, patented improvements typically compete with and provide alternatives to existing products that are already established in, or that may even dominate, the marketplace. Because they routinely are interchangeable with existing products, patented improvements seldom constitute a relevant product market unto themselves. *See Brown Shoe Co. v. United States*, 370 U.S. 294, 325 (1962) ("The outer boundaries of a product market are determined by the reasonable interchangeability of use or the cross-elasticity of demand between the product itself and substitutes for it."). Thus, the presumption that a patented product defines a relevant market for antitrust purposes has no basis in fact.

Routine interchangeability also precludes any factual basis for the presumption of market power in a relevant product market. In competing as an alternative to existing products, a patented product seldom dominates the marketplace.

As a result, contrary to the presumption, a patent rarely defines a relevant product market or creates market power in any relevant market, in the AIPLA's practical experience.

Other Federal Circuit panels have recognized this economic reality in the contexts of other antitrust laws and patent misuse. *See, e.g., C.R. Bard, Inc. v. M3 Sys., Inc.*, 157

F.3d 1340, 1368 (Fed. Cir. 1998) (Sherman Act § 2; "It is not presumed that the patent-based right to exclude necessarily establishes market power in antitrust terms. The virtually unlimited variety and scope of patented inventions and market situations militate against *per se* rules in these complex areas."); *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997) (not applying presumption in patent misuse context; "[I]n the absence of market power, even a tying arrangement does not constitute patent misuse."); *Abbott Labs. v. Brennan*, 952 F.2d 1346, 1354 (Fed. Cir. 1991) (Sherman Act § 2; "A patent does not of itself establish a presumption of market power in the antitrust sense. The commercial advantage gained by new technology and its statutory protection by patent do not convert the possessor thereof into a prohibited monopolist."); *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 875 n.9 (Fed. Cir. 1985) (Sherman Act § 2; "[N]ot every patent confers market power." (quoted source omitted)); *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1367 (Fed. Cir. 1984) (Sherman Act § 2; "[P]atent rights are not legal monopolies in the antitrust sense of that word.").

Both the legislative and executive branches have indicated that the presumption is not factually supportable. In enacting 35 U.S.C. § 271(d)(5) (2000), Congress specifically required proof of market power in a relevant market to establish patent misuse or illegal extension of the patent right. Similarly, the Federal Trade Commission and the Department of Justice have concluded that market power cannot and should not be presumed. "Although the intellectual property right confers the power to exclude with respect to the *specific* product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power." United States Department of

Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* § 2.2 (Apr. 6, 1995), *available at* http://www.usdoj.gov/atr/public/guidelines/ipguide.htm (last visited May 3, 2005).

Thus, the essential factual premise of the Federal Circuit panel's decision, and of prior decisions by this Court in *International Salt*, 332 U.S. at 395-96, and *Loew's*, 371 U.S. at 45-46, has no factual basis, in the AIPLA's practical experience. Because the presumption does not rest on "actual market realities," the Court should reject it. *See Kodak*, 504 U.S. at 466-67.

B. The Market Power Presumption Eliminates a Critical Limitation on Application of the *Per Se* Rule, Which Should Not Be Compromised

The market power presumption can result in *per se* antitrust illegality if the patent owner does not rebut the presumption. This is because, once the plaintiff meets the market power element, the rest of the key elements of a tying offense may be undisputable or simply proved: two separate products that are tied together in an arrangement that affects a "not insubstantial" amount of commerce in the market for the tied product. *N. Pac. Ry. Co. v. United States*, 356 U.S. 1, 6 (1958) (concluding that tying arrangements are "unreasonable in and of themselves whenever a party has sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product and a 'not insubstantial' amount of interstate commerce is affected."); *see Kodak*, 504 U.S. at 461-62. Thus, the presumption may shift certain cases from the Rule of Reason to *per se* standards for determining illegality of patent tying arrangements under Sherman Act § 1.

Such a result would run counter to the trend of this Court's antitrust decisions. Over the past thirty years, the Rule of Reason has developed into the preferred method for analyzing the potential for competitive harm in antitrust cases. *See, e.g., Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 49 (1977); *State Oil Co. v. Kahn*, 522 U.S. 3, 10 (1997). It affords substantial flexibility to prohibit practices that harm competition, while permitting practices that do not harm competition or that affirmatively enhance competition.

This Court has departed from the Rule of Reason and applied a *per se* rule to tying only in the narrow situation in which the seller is found to have market power in the relevant market for the tying product. *See, e.g., Kodak*, 504 U.S. at 464-78. In such cases, the antitrust plaintiff must (1) define the relevant market and (2) establish that the antitrust defendant has appreciable market power in the relevant market. *See Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 18 (1984); *Kodak*, 504 U.S. at 462 (explaining that "'appreciable economic power' in the tying product market" must be shown for a violation of Sherman Act § 1). This Court has recognized that tying is not necessarily *per se* unlawful. *See, e.g., Times Picayune Publ'g Co. v. United States*, 345 U.S. 594 (1953); *Standard Oil Co. v. United States*, 337 U.S. 293, 306 (1949); *Jefferson Parish*, 466 U.S. at 16-18. An accurate analysis of market power in a relevant market thus is critical to the proper application of the Rule of Reason.

The market power requirement guards against a rigid application of *per se* analysis in tying cases. Like any other limitation on the *per se* rule, it should be compromised only in rare instances, specifically where the challenged practice has been shown—through experience—to virtually always

harm competition. *See Continental T.V.*, 433 U.S. at 58-59 (explaining that any "departure from the rule-of-reason standard must be based upon demonstrable economic effect rather than . . . upon formalistic line drawing"); *N. Pac.*, 356 U.S. at 5 (explaining that *per se* analysis is appropriate only for practices that have a "pernicious effect on competition and lack of redeeming virtue"). The market power presumption applied by the Federal Circuit panel below, however, has not been validated by experience, as decisions of this Court require. *See, e.g., Kodak*, 504 U.S. at 466-67.

There is no reason why the Court's approach to tying should be different where patent licensing is involved. The patent licensing context presents the same seller-buyer relationships as exist in typical tying cases under both the Rule of Reason and *per se* analyses: the patent owner sells licenses to its patents and the licensee buys those licenses. When the seller does not have market power in the tying product, the Rule of Reason is the proper mode of analysis even in tying cases. *See Jefferson Parish*, 466 U.S. at 29 (explaining that an antitrust plaintiff must prove a Rule-of-Reason violation in the absence of *per se* liability).

Moreover, positive benefits may flow from a variety of patent tying arrangements, such as efficiencies in ease of calculating license fees or in distribution. *See, e.g., Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 834 (1950) (holding non-mandatory package licensing of patents was not patent misuse), *overruled in part on other grounds by, Lear, Inc. v. Adkins*, 395 U.S. 653 (1969); *United States v. Jerrold Elecs. Corp.*, 187 F. Supp. 545, 555-58 (E.D. Pa. 1960) (holding tying was not antitrust violation for entrant into new industry), *aff'd per curiam*, 365 U.S. 567 (1961).

C. By Effectively Shifting the Burden to the Patent Owner, the Presumption Encourages Accused Infringers Routinely To Allege Tying Antitrust Counterclaims

Accused infringers routinely used to plead antitrust counterclaims. Those counterclaims have significantly diminished in frequency, however, as the Federal Circuit and this Court have narrowed the areas in which an antitrust violation can be pleaded and proven without spending the very substantial resources needed to analyze and prove market realities.

Patent litigation already entails serious risk for the patent owner. According to a recent study, at the district court level, patent owners win only about fifty-eight percent of all patent suits, only about two-thirds of patents are held valid and about the same portion are held infringed, and the patent owners' win rate varies significantly depending on the jurisdiction in which the suit is brought. *See* Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. Rev. 889, 915-17 (2001).

High costs to litigate infringement cases already prevail. The AIPLA conducts an annual economic survey of its members, which litigating parties regularly use as a basis for budgeting infringement litigation, as well as in determining the reasonableness of attorney's fees and costs. *See, e.g., View Eng'g, Inc. v. Robotic Vision Sys., Inc.*, 208 F.3d 981, 987-88 (Fed. Cir. 2000) (citing survey for attorney's fees); *Yurman Designs, Inc. v. PAJ, Inc.*, 125 F. Supp. 2d 54, 56 (S.D.N.Y. 2000) (same). The 2003 survey, the most recent year for which results are available, shows the median costs for an infringement suit are approximately

$4,000,000 and the top twenty-five percent of the suits cost about $6,000,000. *See* Appendix attached hereto at A2, American Intellectual Property Law Assn., *2003 Report of the Economic Survey* 94 tbl. 22 (2003).

In the AIPLA's experience, antitrust litigation costs add substantially to the total. Discovery alone in a typical antitrust case often involves hundreds of thousands of documents. The magnitude of these costs represents a substantial burden on any company, regardless of size. They may be crippling to a mid-sized company, and prohibitive to small businesses, start-up companies, and individual inventors.

A tying antitrust claim without the presumption necessarily requires both sides to explore market issues. But the presumption shifts the bulk of the costs of the antitrust litigation to the patent owner. The presumption thus unfairly handicaps the patent owner by easing the burden for the antitrust plaintiff, thereby increasing the risk to the patent owner.

The presumption imposes a substantial evidentiary burden for the patent owner, because the Federal Circuit panel's decision limits the proof that can be offered. Specifically, the panel held that, to rebut the presumption, it is not enough to show the availability of alternatives to the tying arrangement. Rather, the patent owner must establish the price elasticity of the relevant products, which typically is expensive and time consuming. "The presumption can only be rebutted by expert testimony or other credible economic evidence of the cross-elasticity of demand, the area of effective competition, or other evidence of lack of market power." *Independent Ink*, 396 F.3d at 1352.

Thus, although the market power presumption may simplify that issue for the antitrust plaintiff, it forces the patent owner to introduce substantial, complex, and costly proof just to survive summary judgment. Yet, that shifting of cost and risk is not justified by practical experience.

Moreover, the presumption may provide an incentive to circumvent the limitations of a misuse defense by repackaging it as an antitrust claim. Under 35 U.S.C. § 271(d)(5) (2000), to establish misuse, the accused infringer must establish market power and would not receive the significant benefit of the presumption.

The combined effect of these factors skews the balance of power between the patent owner and the antitrust plaintiff substantially in favor of the antitrust plaintiff. This can have widespread implications for many patent owners, because numerous arrangements involving patents can be characterized as ties. Licensing of numerous patents for a royalty based on total sales, for example, is a common practice that courts have subjected to an antitrust tying analysis. *See, e.g., Automatic Radio*, 339 U.S. at 834; *Zenith*, 395 U.S. at 137-39.

The increased cost and risk flowing from the presumption can coerce patent owners into compromising valid infringement claims and settling cases for less than they otherwise would. According to a recent study, about 95 percent of patent cases settle before the end of trial. *See* Jean O. Lanjouw & Mark Schankerman, *Protecting Intellectual Property Rights: Are Small Firms Handicapped?*, 47 J.L. & Econ. 45, 56 (Apr. 2004). Worse yet, in view of the enhanced risk of treble damage liability, the presumption may compel some patent owners not to enforce their rights at all. That would diminish the value of the exclusive rights

afforded by a patent, which in turn may impair the willingness of inventors to innovate and disclose their inventions to the public through the patent system. The effect is not limited merely to cases of express ties, but includes licenses in which the practical effect of a restriction may arguably create a tie.

II. Reversal Would Resolve Divergences Between Federal Circuit Panels' Decisions, and Between the Federal Circuit and Other Circuits

The Federal Circuit panel's decision diverges not only from decisions by other Federal Circuit panels that rejected or did not apply the presumption in related contexts, but also from decisions of other circuit courts of appeals that have declined to apply such a presumption.

The Federal Circuit is uniquely positioned among the circuit courts of appeals to handle patent-antitrust cases. Vested by Congress with sole nationwide jurisdiction over patent appeals in cases initiated with patent claims—which are the vast majority of cases involving patents—the Federal Circuit receives appeals that would otherwise have been decided by regional circuit courts of appeals. *See* 28 U.S.C. § 1295(a)(1) (2000). All appealed cases that raise a patent claim in the complaint will flow to the Federal Circuit. *See Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 829 (2002). Thus, divergence between the law applied by different panel decisions of the Federal Circuit is akin to diverging decisions among the regional circuits.

A dominant factor in creating the Federal Circuit was to bring uniformity to the treatment of patent cases, including cases involving antitrust claims that are within its jurisdiction. *See Noblepharma AB v. Implant Innovations,*

Inc., 141 F.3d 1059, 1068 (Fed. Cir. 1998); *Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564, 1574 (Fed. Cir. 1984). Yet, a substantial contrast now exists between Federal Circuit panels' decisions on the question of whether a patent creates a presumption of market power in a relevant market. Specifically, the decision below stands out from other Federal Circuit panels' decisions that hold that the market power presumption does not exist in the context of attempted or actual monopolization under Sherman Act § 2, or that did not apply the presumption in the context of patent misuse. *See, e.g., Bard*, 157 F.3d at 1368 (Sherman Act § 2); *Virginia Panel*, 133 F.3d at 869 (misuse); *Abbott Labs.*, 952 F.2d at 1354 (Sherman Act § 2); *Loctite*, 781 F.2d at 875 n.9 (Sherman Act § 2); *Am. Hoist*, 725 F.2d at 1367 (Sherman Act § 2).

In the decision below, the panel recognized the contrast, but concluded that controlling precedent of this Court constrained it to follow the presumption. *See Independent Ink*, 396 F.3d at 1349 n.8, 1351. If that precedent is controlling, the Federal Circuit, even acting *en banc*, cannot cure this schism without guidance from this Court.

This divergence at the Federal Circuit has practical effects that increase the risk to the patent owner even further. It can create confusion in the trial of patent and antitrust issues. For example, where an accused infringer also asserts a Sherman Act § 2 attempted monopolization claim, the jury will be asked to apply the presumption to the Sherman Act § 1 tying claim, but not to the Sherman Act § 2 attempted monopolization claim. *See Independent Ink*, 396 F.3d at 1353. The same can occur where an accused infringer asserts a misuse claim.

In addition, the shifting of burdens of initial proof may create an anomaly that it would be more difficult to establish the equitable defense of patent misuse than an affirmative antitrust violation. Yet, misuse encompasses conduct broader than an antitrust violation. "[A]s the Supreme Court has said, the patentee's act may constitute patent misuse without rising to the level of an antitrust violation." *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 668 (Fed. Cir. 1986), citing *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 140 (1969). Moreover, misuse cannot exist where the effect of the licensing does not improperly restrain competition. "'To sustain a misuse defense involving a licensing arrangement not held to have been *per se* anticompetitive by the Supreme Court, a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market.'" *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 706 (Fed. Cir. 1992), quoting *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001-02 (Fed. Cir. 1986).

The Federal Circuit panel's decision below also contrasts with decisions of other circuit courts of appeals that have rejected the presumption in related intellectual property contexts. While the Federal Circuit panel below adhered to the principles articulated more than 50 years ago, other circuits have declined to continue to follow *International Salt* and *Loew's* regarding the treatment of tying arrangements involving patent rights, as the Federal Circuit panel recognized. *See Independent Ink*, 396 F.3d at 1350. In the context of Sherman Act § 1 tying cases, the Sixth and Seventh Circuits have recognized that the presumption is not justified by substantial economic experience and declined to apply any presumption. *See A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673, 676 (6th Cir.1986)

(copyright antitrust); *USM Corp. v. SPS Techns., Inc.*, 694 F.2d 505, 511 (7th Cir. 1982) (patent misuse). The Federal Circuit panel also noted that the Second, Ninth, and Eleventh Circuits have indicated the opposite. *See Independent Ink*, 396 F.3d at 1352, citing *MCA Television Ltd. v. Pub. Interest Corp.*, 171 F.3d 1265, 1276-79 (11th Cir. 1999) (copyright antitrust), *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336, 1344 (9th Cir. 1984) (copyright antitrust), and *Susser v. Carvel Corp.*, 332 F.2d 505, 521 (2d Cir. 1964) (trademark antitrust). *See also* Petition at 22-23 (citing other appellate and district court cases).

Review by this Court would resolve these diverging rules, both between Federal Circuit panels and among circuit courts of appeals.

III. Conclusion

For the foregoing reasons, the AIPLA respectfully requests that the Court grant *certiorari* to review the Federal Circuit panel's decision. The Court should grant that review to clarify that tying arrangements involving patent and other intellectual property rights are assessed under the Rule of Reason without any presumption of market power in a relevant market arising merely from the issuance of a patent.

Respectfully submitted,

Dated: May 4, 2005

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APPENDIX

[EXCERPT]

AIPLA

Report of the Economic Survey 2003

PREPARED UNDER DIRECTION OF
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TABLE 22. Estimated Costs of Litigation, by Location of Primary Place of Work *(continued)*

	Total Survey	Location of Respondent's Primary Place of Work: Boston Area	NYC Area	Philadelphia-Wilmington	Washington DC Area	Other East	Metro Southeast	Other Southeast	Chicago Area	Minneapolis-St. Paul	Other Central	Texas	California	Other West
Estimate of Total Cost, Through End of Discovery and Inclusive, In a Patent Infringement Suit														
More than $25 million at risk														
End of discovery														
Number Reporting	253	10	17	14	33	16	9	7	23	9	34	19	42	19
% of total		*4%*	*7%*	*6%*	*13%*	*6%*	*4%*	*3%*	*9%*	*4%*	*13%*	*8%*	*17%*	*8%*
75th percentile ($000's)	$4,000	$3,000	$3,000	$4,000	$5,000	$3,000	$3,000	$2,000	$3,500	$2,000	$3,000	$6,000	$4,000	$2,000
Median ($000's)	$2,500	$2,500	$2,000	$4,000	$3,000	$1,000	$2,000	$1,000	$2,500	$1,500	$1,350	$4,000	$3,000	$1,500
25th percentile ($000's)	$1,000	$1,500	$1,000	$2,500	$2,000	$500	$1,000	$500	$1,500	$1,000	$750	$2,000	$2,000	$1,000
Inclusive, all costs														
Number Reporting	258	11	17	15	34	17	9	7	23	9	33	21	42	19
% of total		*4%*	*7%*	*6%*	*13%*	*7%*	*3%*	*3%*	*9%*	*3%*	*13%*	*8%*	*16%*	*7%*
75th percentile ($000's)	$5,996	$5,494	$5,009	$5,007	$7,990	$4,010	$5,006	$7,994	$5,494	$3,506	$6,506	$7,997	$6,006	$3,508
Median ($000's)	$3,995	$4,500	$3,750	$4,995	$5,000	$3,000	$3,500	$1,300	$3,506	$2,500	$2,250	$5,009	$4,997	$3,010
25th percentile ($000's)	$2,306	$2,506	$2,244	$2,506	$3,010	$1,991	$2,494	$806	$2,306	$1,994	$1,495	$4,003	$3,508	$2,206
Estimate of Total Cost, Through End of Discovery and Inclusive, In a Trademark Infringement Suit														
Less than $1 million at risk														
End of discovery														
Number Reporting	170	5	10	3	17	13	3	8	19	5	35	15	16	20
% of total		*3%*	*6%*	*2%*	*10%*	*8%*	*2%*	*5%*	*11%*	*3%*	*21%*	*9%*	*9%*	*12%*
75th percentile ($000's)	$248	$251	$251		$301	$201		$138	$250	$251	$151	$251	$375	$175
Median ($000's)	$150	$200	$200	$250	$152	$101	$120	$88	$199	$201	$100	$200	$200	$149
25th percentile ($000's)	$98	$99	$90		$148	$49		$51	$102	$198	$59	$149	$100	$99
Inclusive, all costs														
Number Reporting	166	5	9	3	18	13	3	8	17	5	35	15	14	20
% of total		*3%*	*5%*	*2%*	*11%*	*8%*	*2%*	*5%*	*10%*	*3%*	*21%*	*9%*	*8%*	*12%*
75th percentile ($000's)	$401	$801	$451		$500	$302		$205	$451	$451	$274	$401	$751	$349
Median ($000's)	$298	$400	$350	$750	$401	$298	$200	$138	$302	$350	$225	$302	$450	$251
25th percentile ($000's)	$198	$159	$174		$226	$119		$78	$269	$299	$102	$298	$300	$201

MOTION FILED

MAY 5 - 2005

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No. 04-1329

IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.,
Petitioners,

v.

INDEPENDENT INK, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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MOTION FOR LEAVE TO FILE BRIEF AND BRIEF FOR *AMICUS CURIAE* IN SUPPORT OF PETITIONERS

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Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

MOTION FOR LEAVE TO FILE *AMICUS CURIAE* BRIEF

Pursuant to Supreme Court Rule 37.2(b), Pfizer Inc. ("Pfizer") respectfully moves for leave to file the attached *amicus curiae* brief in favor of granting the petition for a writ of *certiorari*.

Pfizer is the world's largest research-based pharmaceutical company. New pharmaceuticals are routinely protected by patent, and their effective distribution involves the licensing of those patent rights. Pharmaceutical licensing arrangements take myriad forms, reflecting the wide variety in business circumstances associated with different drugs. Pfizer has extensive experience with patent licensing and the commercial need for flexibility and predictability in intellectual property law.

The segment of the nation's economy that involves intellectual property rights is large and rapidly growing. Royalty income in the United States has been estimated at $110 billion annually. K. Rivette and D. Klein, *Discovering New Value in Intellectual Property*, 78 Harvard Business Review 59 (2000). This licensing supports broad distribution of technology, crucial both to today's economy and to further technological advances. Licensing rates are estimated to range in most instances from 1%-5% of the gross sales of the related goods or services. *Id.*

Pfizer's business, like the business of all firms whose work involves products and services protected by intellectual property rights, depends upon the existence of a robust, rational, and predictable system of intellectual property law. Pfizer seeks to advise the Court about how the Federal Circuit's decision implicates far more than the immediate facts of the case and interests of the parties. As a third party with a strong interest in the law of patent licensing, Pfizer is well-positioned to describe how, as a practical matter, the decision below will obstruct the efficient distribution of pharmaceuticals as well as burden and distort patent licensing generally.

Pfizer sought consent to file an *amicus curiae* brief from the counsel of record for all parties, pursuant to Supreme Court Rule 37.2(a). Counsel for petitioners Illinois Tool Works Inc. and Trident, Inc., defendants in the case below, consented. Counsel for respondent Independent Ink, Inc. refused consent. Copies of correspondence reflecting the consent and refusal of the respective parties are being filed with the Clerk.

Accordingly, Pfizer respectfully requests that the Court grant its motion for leave to file the attached *amicus curiae* brief.

Respectfully submitted,

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QUESTION PRESENTED

Amicus Pfizer Inc. will address: Whether a plaintiff alleging unlawful tying of a non-patented product to a patented one under § 1 of the Sherman Act, 15 U.S.C. § 1, carries the initial burden of proving the defendant has power in the relevant market in which the tying product competes, as he would in a case alleging monopolization under Section 2 of the Sherman Act, 15 U.S.C. § 2, or may initially rely instead on a presumption that the defendant has power in a one-product "market" defined by the scope of the patent?

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IN THE

Supreme Court of the United States

No. 04-1329

ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.,
Petitioners,

v.

INDEPENDENT INK, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF FOR *AMICUS CURIAE* IN SUPPORT OF PETITIONER

INTEREST OF *AMICUS CURIAE* [1]

Amicus Pfizer Inc. is the world's largest research-based pharmaceutical company. It discovers, develops, manufactures, and markets leading prescription medicines for humans and animals, enabling them to enjoy longer, healthier, and more productive lives. An effective system of intellectual property protection is essential to Pfizer's work.

[1] No one other than Pfizer Inc. wrote this brief in whole or in part, or made any monetary contribution to its preparation. The written consent of Illinois Tool Works Inc. and Trident, Inc., to the filing of this brief and the refusal of consent by Independent Ink, Inc., along with a motion for leave to file, are being filed with the Clerk herewith.

INTRODUCTION AND SUMMARY OF ARGUMENT

The Federal Circuit purported to follow dated Supreme Court precedent in holding that a plaintiff alleging the tying of one product to another, patented one under § 1 of the Sherman Act can meet its initial burden with respect to the first element of its claim—market power in the tying product—by relying on a rebuttable presumption that a patent conveys market power.[2] Pet. App. 14a. The presumption has two related components: a patented good is presumed to constitute a market by itself, immune from competition from other patented and non-patented goods; and the patentee is presumed to hold power in that one-product market. There is no justification for either aspect of this presumption.

Pharmaceutical companies, including *amicus* Pfizer, invest billions of dollars in the research and development of new medical treatments. Yet pharmaceutical firms are only one component, albeit one of the largest, of the growing portion of the nation's economy that is devoted to the development of new technology. These businesses require a rational and predictable system for the protection of intellectual property.

The legal consequences of a patent with respect to market definition and market power issues in an antitrust case have proved anything but predictable. This Court's statements have been inconsistent, at least in connection with cases arising under § 1 of the Sherman Act. Many lower courts, mindful of the absence of any justification for the presumption, have expressed their disagreement with it in dicta. The presumption has also been condemned by scholars and rejected by the enforcement agencies and by Congress (in the context of patent misuse). Given the breadth and consistency of the criticism, many considered the presumption obsolete. Now the Federal Circuit has resurrected it.

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[2] The court did not apply the presumption to the monopolization claim under 15 U.S.C. § 2. Pet. App. 18a.

If the decision below is left standing, it will create a roadblock to the efficient use of intellectual property, which is the lifeblood of pharmaceutical research, and it will obstruct the efficient distribution of pharmaceuticals, critical to effective medical care. It will also generate years of litigation over how it is to be applied in practice. As it has in the past, this Court should grant certiorari and reverse in order to ensure that precedent based on obsolete and possibly misinterpreted reasoning does not deter efficient and pro-competitive business conduct, including the research, development, and efficient marketing of new medical technologies.

REASONS FOR GRANTING CERTIORARI

I. THE FEDERAL CIRCUIT'S DECISION THREATENS THE EFFICIENT EXPLOITATION OF PATENTS, CRITICAL TO TODAY'S ECONOMY

A. Intellectual property has substantial commercial importance

The Federal Circuit's decision will ripple through the intellectual property-based segments of the nation's economy. The scope of this commerce is vast and growing. Investment in research and development was estimated at $1 trillion in 2000, rivaling corporate investment in physical assets in that year. L. Nakamura, *A Trillion Dollars a Year in Intangible Investment and the New Economy*, in J. Hand and B. Lev, ed., *Intangible Assets: Values, Measures, and Risks* 19-47 (2003). Investment in research and development in pharmaceuticals alone was estimated at $49.3 billion in 2004. Pharmaceutical Research and Manufacturers of America, Pharmaceutical Industry Profile 2005, *available at* http://www. phrma.org/publications/publications//2005-03-17.1143.pdf.

Royalty income from patent licensing is estimated at $110 billion annually in the United States. K. Rivette and D. Klein, *Discovering New Value in Intellectual Property*, 78 Harvard Business Review 59 (2000). This is only a fraction of the value of the broad distribution of technology that licensing promotes. Licensing rates are estimated at 1% - 5% of the gross sales of the related goods or services. *Id.*

B. Patent licensing is critical to introduction of new medicines

Owners of the rights to new pharmaceutical compounds often lack the resources necessary for the drug development and approval process, estimated to cost over $800 million on average per launched drug, fully capitalized. J. A. DiMasi, R. W. Hanse, and H. G. Grabowski, *The Price of Innovation: New Estimates of Drug Development Costs*, 2003 Journal of Health Economics, No. 2 at 166. Many patent owners must partner with other companies to gain access to the requisite resources and expertise. Licensing is procompetitive because it provides the mechanism for this marriage of complementary assets. *See* Department of Justice/Federal Trade Commission Antitrust Guidelines for the Licensing of Intellectual Property § 2.3 (1995) ("DOJ/FTC Guidelines").

C. The Federal Circuit decision will reduce licensing flexibility and predictability

Pharmaceutical firms today employ a wide variety of licensing arrangements to distribute their technology, particularly in connection with joint efforts in which one company contributes its research and development and another contributes its marketing and related expertise. Flexibility is key to developing the best licensing arrangement for a particular business need. In these and other arrangements, efficiency often counsels the bundling of more than one patent in a single license. The decision below,

however, will increase the antitrust risk in those arrangements. Moreover, uncertainty about how the courts will apply *Independent Ink* will further constrain licensing approaches, since firms value predictability. This will adversely impact the efficient distribution of intellectual property rights and in turn the research and development of patentable pharmaceutical technology.

D. The Federal Circuit decision will create confusion in the law, increasing patent litigation

The Federal Circuit's decision raises myriad questions about how it should be applied in practice. Will the presumption be applied in cases of patent bundling, an issue of particular concern to pharmaceutical firms? In tying cases under § 1 of the Sherman Act, will the presumption apply to the market for the tied product if patented? Will lower courts limit the presumption to tying claims, or will its use spill over into other types of antitrust claims, especially where a tying claim is combined with other antitrust allegations and tried to a jury? How will courts deal with the possibility of inconsistent outcomes in a single case, where a judge is the factfinder with respect to tying misuse and a jury is the factfinder with respect to antitrust claims?

Patent litigation already costs some $1 billion annually, and the decision below will increase that figure. *See Schering-Plough Corp. v. FTC*, No. 04-10688 (11th Cir. 2005), *available at* http://www.ca11.uscourts.gov/opinions/ops/200410688.pdf, *citing* S. Carlson, *Patent Pools and the Antitrust Dilemma*, 16 Yale L. Reg. 359, 380 (1999). Years of litigation will be needed to resolve the questions it raises.

II. THE BASIS FOR THE PRESUMPTION—THE NOTION THAT A PATENT IS LIKELY TO CONVEY MARKET POWER—IS NOW WIDELY RECOGNIZED AS WRONG

A. There is no justification for use of a patent-based presumption of market power

In assessing tying arrangements of all kinds, antitrust analysis begins by determining if the seller has sufficient leverage to coerce the buyer into accepting terms it would reject if it could. *Jefferson Parish Hospital Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984). *Fortner II* established the importance of not condemning a tying arrangement without first confirming that the seller in fact has leverage over the buyer. *United States Steel Corp. v. Fortner Enterprises, Inc.*, 429 U.S. 610 (1977).

In the pharmaceutical industry, patented goods are seldom sufficiently unique to command market power. Almost all patented products compete with other patented products. In many cases, they face competition from generic products as well for meeting particular medical needs. Indeed, pharmacy benefit managers devote considerable effort to exploiting this competition. Pharmacy benefit managers project that through drug interchange they will save $ 6.9 billion in drug costs in 2005, a figure that reflects both substitution of generics for patented drugs and competition among patented drugs. J. Finkelstein, Pharmacy Benefit Managers a Growing Force in Medicare, Amednews.com (Aug. 2, 2004), *available at* http://www.ama-assn.org/amednews/. The latter savings are proof of healthy competition among patented products and the fallacy in presuming, even subject to rebuttal, that such competition does not exist.

B. Many authorities have rejected use of a patent-based presumption of market power

a. *This Court emphatically rejected use of a patent-based market power presumption in cases brought under Section 2 of the Sherman Act.*

In *Walker Process*, a case brought under § 2 of the Sherman Act, this Court stated clearly that a patent does not automatically confer market power. *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177-78 (1965) (a patented device may "not comprise a relevant market. There may be effective substitutes for the device . . ."). Yet the decision below applies the opposite approach, on the grounds that that case arises under a different section of the statute, 15 U.S.C. § 1. This is a distinction without a difference. There is no reason to define antitrust markets and evaluate antitrust market power under different standards under § 1 and § 2 of the Sherman Act, both of which require application of the same type of fact-based economic analysis.

b. *This Court has never definitively held that a patent conveys market power.*

In 1947, this Court held that a tying agreement involving a patented good was anticompetitive. *International Salt Co. v. United States*, 332 U.S. 392 (1947). That decision, however, did not discuss whether the tying product had market power; the case turned instead on other issues, including whether pricing provisions relating to the tied good saved the agreement. When it did address the issue, in 1958, this Court found no reason to presume market power from a patent. *Northern Pac. Ry. v. United States*, 356 U.S. 1, 10 n.8 (1958) ("Of course it is common knowledge that a patent does not always confer a monopoly over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the

patent privileges is slight."). Nevertheless, in *United States v. Loew's, Inc.*, a copyright case, the Court claimed to discover in *International Salt* a holding that a patent should be presumed to convey market power. 371 U.S. 38 (1962). *Loew's* claims for *International Salt* much that the 1947 Court never said about patents and market power.

While the Court again expressed support for the presumption in dicta in Jefferson Parish, some Justices thoughtfully articulated their disagreement. *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984) (opinion of the Court); *Jefferson Parish* at 37, concurring opinion of O'Connor, J, joined by Burger, C.J., and Powell and Rehnquist, J.J. ("a patent holder has no market power in any relevant market if there are close substitutes for the patented product"); *see also Data Gen'l Corp. v. Digidyne Corp.*, 473 U.S. 908 (1985) (dissent from denial of certiorari).

c. *Many lower courts have criticized the patent-based market power presumption.*

Many lower circuits have criticized the presumption in dicta. *See, e.g., USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 511 (7th Cir. 1982) (dicta) (Posner, J.) ("of course, not every patent confers market power"); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1203 (2d Cir. 1981) (dicta) ("When the patented product, as is often the case, represents merely one of many products that effectively compete in a given product market, few antitrust problems arise."); *Rockbit Industries U.S.A., Inc. v. Baker Hughes, Inc.*, 802 F. Supp. 1544, 1550 (S.D. Tex. 1991); *Nobel Scientific Industries v. Beckman Instruments*, 670 F. Supp. 1313, 1329, (D. Md. 1986), *aff'd*, 831 F.2d 537 (4th Cir. 1987) (dicta). Given this judicial sentiment, a Justice Department official testified in 1996 that because the courts were abandoning the presumption, statutory reform to eliminate it was unnecessary. Statement of Joel I. Klein Before the Committee on the Judiciary, U.S.

House of Representatives, Concerning H.R. 2674, *available at* 1996 WL 253568 (May 14, 1996) ("House Judiciary Statement of Joel Klein").

d. *The Federal Circuit has rejected the presumption in Sherman § 2 cases.*

The Federal Circuit in this case made no secret of its skepticism about the presumption, basing its decision solely on what it believed to be the force of precedent. Pet. App. 14a. In earlier cases involving § 2 of the Sherman Act, it rejected the presumption. *In re Independent Service Organizations Antitrust Litigation*, 203 F.3d 1322, 1325 (Fed. Cir. 2000) ("A patent alone does not demonstrate market power."); *Abbott Laboratories v. Brennan*, 952 F.2d 1346, 1354 (Fed. Cir. 1991) ("A patent does not of itself establish a presumption of market power in the antitrust sense.")

e. *Congress rejected use of a patent-based presumption of market power in tying misuse cases.*

The decision below also conflicts with principles underlying the 1988 amendments to the Patent Act. There Congress recognized both that there is no basis for a presumption that a patent conveys market power and that tying can be efficient. It prohibited use of a market-power presumption in litigation of misuse claims based on tying. 35 U.S.C. § 271(d)(5).

(i) It is anomalous for antitrust to judge tying under a stricter standard than misuse.

It has been argued that the 1988 Patent Act amendments "effectively abolish[]" the presumption, since it defies common sense for antitrust law to view tying in a patent license under a stricter standard, and one less consistent with contemporary analysis, than does misuse law. P. Areeda, H. Hovenkamp, and E. Elhauge, 10 Antitrust Law ¶ 1737c at 83 (2d ed. 2001). Recognizing that antitrust, as a more

general legal scheme, should not be more onerous than the more specific law of misuse, the Federal Circuit itself previously concluded that conduct involving intellectual property that does not amount to patent misuse cannot be an antitrust violation. *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860 (Fed. Cir. 1997). The decision below conflicts with that holding.

f. *The enforcement agencies formally reject use of a patent-based presumption of market power.*

The federal enforcement agencies have for a decade opposed use of a patent-based presumption. They have so stated in formal guidelines. DOJ/FTC Guidelines § 5.3. And in prosecuting antitrust violations involving intellectual property, the government has consistently undertaken to prove market power without reliance on a presumption. *See, e.g., United States v. Microsoft Corp.*, 253 F.3d 34 (D.C. Cir. 2001).

g. *Leading scholars reject use of a patent-based presumption.*

Leading legal commentators also criticize use of a presumption. Areeda, Hovenkamp, and Elhauge, 10 Antitrust Law ¶ 1737c at 83; *see also* H. Hovenkamp, Federal Antitrust Policy § 10.3 (2d ed. 1999) ("most patents confer absolutely no market power on their owners"). In his nonjudicial writings, Judge Richard Posner has observed that "a patent is a poor proxy for monopoly power, since most patents confer too little monopoly power to be a proper object of antitrust concern." Antitrust Law 197-98 (2d ed. 2001).

h. *The analysis adopted in the modern antitrust jurisprudence of this Court conflicts with a patent-based presumption of market power.*

Numerous modern holdings of this Court are inconsistent in approach with the decision below. In its antitrust decisions over the past half-century, this Court has moved steadily toward a more fact-based and economically disciplined inquiry into market definition and market power, an approach inconsistent with presumptions about market definition and power. Beginning at least with *Walker Process* in 1965—a patent-related case—this Court has emphasized the importance of economically sound analysis, grounded in hard evidence, in deciding antitrust cases. *Walker Process*, 382 U.S. 172. Such analysis is necessarily based on careful market definition. ("Without a definition of that market there is no way to measure Food Machinery's ability to lessen or destroy competition."). *Id.* The Court continues to employ an economically sound approach. *See, e.g., Verizon Communications Inc. v. Law Offices of Curtis V. Trinko*, 124 S. Ct. 872 (2004); *State Oil Co. v. Khan*, 522 U.S. 3 (1997); *Brooke Group v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209 (1993); *Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447 (1993). These decisions rely on evidence, not ill-founded presumptions, about markets and competition.

III. THIS CASE IS AN EXCELLENT VEHICLE FOR CONSIDERATION OF THE PATENT-BASED PRESUMPTION OF MARKET POWER

Unless the Court accepts this case for review, the presumption will likely survive, fostering meritless litigation and interfering with efficient licensing, until this Court accepts another case presenting the issue. Further substantive analysis of the presumption in the courts below is unlikely. Many cases involving the presumption will be litigated before the Federal Circuit, given its broad jurisdiction over patent cases. *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059

(Fed. Cir. 1998). Even should the regional circuits hear such a case, they may well follow the Federal Circuit's lead. *See, e.g., Digidyne Corp. v. Data General Corp.*, 734 F.2d 1336 (9th Cir. 1984). Moreover, future litigation on this issue is likely to be sparse, since many licensors will simply forgo tying arrangements. Many other licensors will settle quickly if sued. Thus, the harm inflicted by the decision below will continue with few future opportunities for the Court to correct it.

Resort to a Congressional fix would be unwise. As leading enforcement officials have pointed out, one enduring strength of the antitrust laws is that they can be adapted by the judiciary to reflect changes in economic learning and business practices. W. F. Baxter, *Separation of Powers, Prosecutorial Discretion, and the "Common Law" Nature of Antitrust Law*, 60 Tex. L. Rev. 661, 670 (1982) ("An adaptive approach to antitrust law is necessary both because of the diversity and rapidly changing nature of the business conduct to be scrutinized, and because of the continuing progress of economic theory in explaining why firms pursue certain strategies and the competitive consequences of their behavior."); *see also* House Judiciary Statement of Joel Klein. Reliance on targeted statutes to correct anomalies in the law would restrict antitrust's essential adaptability. The problem here is judicially created, and it is best solved judicially.

This Court has appropriately reserved to itself, as the nation's highest court, the sole right to overrule its own precedent. *State Oil v. Khan*, 522 U.S. at 20; *Hohn v. United States*, 524 U.S. 236, 252-53 (1998). A necessary consequence, however, is the obligation for this Court to accept an opportunity to correct older holdings, or their misinterpretation by lower courts, once it is clear that those holdings or interpretations are needlessly fostering litigation, with adverse effects on the marketplace.

The Court faced a similar situation in *Khan*, where decades-old case law condemned maximum resale price fixing as *per se* illegal although there was no recognized basis for such treatment. 522 U.S. 3 (overruling *Albrecht v. Herald Co.*, 390 U.S. 145 (1968)). There the court of appeals, while disagreeing with the result, was bound by Supreme Court precedent to apply the *per se* rule. This Court granted certiorari and reversed, holding that maximum resale price maintenance should be judged under the rule of reason.

Independent Ink poses a single issue: the validity of a presumption that a patented product dominates a market consisting of that product alone. The case has an extensive summary-judgment record that would facilitate the Court's review. There is unlikely to be an equally attractive vehicle for addressing the outmoded and destructive market-power presumption for many years to come.

CONCLUSION

The petition for a writ of certiorari should be granted and the decision of the Federal Circuit reversed.

Respectfully submitted,

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BRIEF *AMICUS CURIAE* OF THE INTELLECTUAL PROPERTY LAW ASSOCIATION OF CHICAGO IN SUPPORT OF PETITIONERS

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STATEMENT OF INTEREST

The Intellectual Property Law Association of Chicago ("IPLAC") submits this brief as *amicus curiae* in support of Illinois Tool Works, Inc. ("ITW").[1] IPLAC has the permission of the parties to submit this brief.

Founded in 1884, IPLAC is the oldest intellectual property law association in the nation. Its nearly 1,000 members include law firm attorneys, sole practitioners, corporate attorneys, law school professors, and law students. IPLAC is centered in Chicago, a principal forum for patent litigation in this country. IPLAC itself has no interest in any party to this litigation or stake in the outcome of this case.[2]

IPLAC is a not-for-profit organization dedicated to maintaining a high standard of professional ethics in the practice of patent, trademark, copyright, trade secret, and associated fields of law. A principal aim is to aid in the development and administration of these laws and the manner by which they are applied by the courts and by the United States Patent and Trademark Office. IPLAC is further dedicated to providing a medium for the exchange of views on intellectual property law between those practicing in the field and to educating the public at large.

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[1] Pursuant to Rule 37.6, IPLAC states that: (1) no counsel to a party authored this brief, in whole or in part; and (2) no person or entity other than IPLAC and its counsel made a monetary contribution to the preparation or submission of the brief.

[2] IPLAC notes that petitioner ITW is headquartered in the Chicago area and that at least its General Patent Counsel is a member of IPLAC. However, no employee of ITW sits on the board of managers of IPLAC nor chairs any of the committees involved in writing or reviewing this brief.

SUMMARY OF FACTS AND CASE

ITW sells a print head for the application of bar codes to packages and cartons on an assembly line. One or more ITW patents apply to the print head. ITW's license to use the patented print head technology requires the licensee to buy ink from ITW only.

Independent Ink sells ink and charged that ITW's license agreement violates Sections 1 and 2 of the Sherman Act. Finding that Independent submitted no affirmative evidence defining a relevant market nor proving Trident's (ITW's) market power in it, the district court granted summary judgment in favor of ITW and Trident on both claims, stating that for tying to violate the antitrust laws, the plaintiff must affirmatively prove market power. *Independent Ink, Inc. v. Trident, Inc.*, 210 F. Supp. 2d 1155, 1162, 1173-77 (C.D. Cal. 2002).

The Federal Circuit reversed and remanded the case as to the Section 1 claim, declaring that precedents of this Court in tying cases confer on Independent a presumption of market power that arises from patents owned or controlled by Trident or ITW over the tying product. *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, 396 F.3d 1342, 1344 (Fed. Cir. 2005). It affirmed the district court's summary judgment as to the Section 2 claim. The court of appeals also ruled:

> The presumption can only be rebutted by expert testimony or other credible economic evidence of the cross-elasticity of demand, the area of effective competition, or other evidence of lack of market power.

Id. at 1352.

SUMMARY OF ARGUMENT

Modern jurisprudence of this Court calls for a detailed economic analysis of the markets for the tying product and the tied product. The presumption wrongly eliminates the need for such analysis and is not consistent with current jurisprudence.

Further, while this Court has sometimes mentioned patents as conferring market power, in other cases it has denied the proposition. It is easy to demonstrate that simply having a patent on some aspect of the tying product or service does not establish market power. The presumption makes little sense.

Finally, raising a presumption that a tie-in is illegal merely because a patent somehow covers the tying product or service is a disincentive to innovation and/or patenting and unfairly penalizes inventors. The potential benefits of the presumption are speculative and do not outweigh this disincentive.

An antitrust complainant raising a tying arrangement should be required to show the requisite economic factors without the benefit of a presumption, and the judgment of the court of appeals to the contrary (believing itself required to apply the presumption) should be reversed.

ARGUMENT

I. THE *PER SE* RULE DOES NOT AUTOMATICALLY APPLY

In 1958, this Court instructed that certain agreements or practices were unlawful *per se*, stating that:

> . . . their pernicious effect on competition and lack of any redeeming virtue are conclusively presumed to be unreasonable and therefore illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use.

Northern Pacific Rwy. Co. et al. v. U.S., 356 U.S. 1, 5, 78 S.Ct. 514, 518 (1958).

The railway had argued that the tying product (real estate) was not patented, wherefore the rule of *International Salt Co., Inc. v. U.S.*, 332 U.S. 392 (1947), which involved patents, was inapplicable. Rejecting this contention, this Court stated that it had placed no reliance on whether a patent was involved. "Nor have subsequent cases confined the rule of *per se* unreasonableness laid down in *International Salt* to situations involving patents." *Id.*, 356 U.S. at 9, 78 S.Ct. at 520. The test, rather, is whether there is "sufficient economic power to impose an appreciable restraint on free competition in the tied product." *Id.*, 356 U.S. at 11, 78 S.Ct. at 521.

Four years later, this Court declared that requisite economic power is presumed when the tying product is patented or copyrighted, citing a hostility to the use of the patent "monopoly" to extend the patentee's economic control to unpatented products. *United States v. Loew's Inc. et al.*, 371 U.S. 38, 45-46, 83 S.Ct. 97, 102 (1962).

In a case involving patents three years later, however, this Court was "reluctant to extend [the area of *per se* illegality] on the bare pleadings and absent examination of market effect and economic consequences." *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172, 178, 86 S.Ct. 347, 351 (1965).

This Court presented a more refined analysis of the factors needed to establish unlawful tying in *Jefferson Parish Hospital District No. 2 et al. v. Hyde*, 466 U.S. 2, 104 S.Ct. 1551 (1984). The hospital had restricted its anesthesiology hiring to one outside source and refused to grant privileges to other anesthesiologists. Dr. Hyde challenged this as an unlawful tie-in, with hospital surgical services as the tying "product" and the anesthesiology services as the tied "product." The district court found that the impact on commerce resulting from the contract was minimal, but the court of appeals found that the contract was a tie-in involving a not insubstantial amount of interstate commerce and declared the arrangement illegal *per se*. 466 U.S. at 7-8, 104 S.Ct. at 1555-56. This Court reversed, characterizing "condemned tying" arrangements as "when the seller has some special ability – usually called 'market power' – to force a purchaser to do something that he would not do in a competitive market." 466 U.S. at 13-14, 104 S.Ct. at 1559.

The Court specified that a *per se* condemnation "without inquiry into actual market conditions . . . is only appropriate if the existence of forcing is probable." 466 U.S. at 15-16, 104 S.Ct. at 1560. A proper analysis of the tying issue had to focus on the sale of the involved services rather than the contractual arrangements with providers. 466 U.S. at 18, 104 S.Ct. at 1561. The legality of the hospital's conduct "depends on its competitive consequences, not on whether it can be labeled 'tying.'" 466 U.S. at 22 n.34, 104 S.Ct. at 1563. Further, "the fact that petitioner's patients are required to purchase two separate items is *only the beginning* of the appropriate inquiry." 466 U.S. at 24, 104 S.Ct. at 1565 [emphasis added].

Thus, not all tying arrangements are unlawful. Rather, they are condemned only where they restrain competition *on the merits by forcing purchases that would not otherwise be made*. 466 U.S. at 27, 104 S.Ct. at 1566. Surgical patients required anesthesiology services in addition to surgical services, and the *Jefferson Parish* record contained no evidence that the hospital forced anesthesiology services on unwilling patients.

The *Jefferson Parish* Court thus explained that all the record showed was that the choice of anesthesiologists had been limited. But,

> without a showing of actual adverse effect on competition, respondent cannot make out a case under the antitrust laws, and no such showing has been made.

466 U.S. at 30, 104 S.Ct. at 1568. The relevant inquiry was whether the contract at issue . . .

> foreclosed so much of the market from penetration by Roux's competitors as to unreasonably restrain competition in the affected market, the market for anesthesiological services.

Id. The record, however, was scant as to the market for anesthesiology services.

IPLAC sees important parallels between the reasoning of the *Jefferson Parish* majority opinion and the case at bar. First, the question is not whether a tying agreement exists but rather whether a relevant market for ink has been impacted adversely by ITW's license agreements for print head technology. Just as the hospital in *Jefferson Parish* did not force surgical patients to purchase services

(anesthesiology) they did not want, ITW cannot be presumed to have forced users of ink print heads to have purchased goods (ink) they did not want. Ink purchases would have been made regardless of the terms of the ITW license agreements, as all users of the ITW print head would require ink for the print head to deliver. Thus, ITW did not coerce the sale of an unwanted product (ink) on print head users.

Second, just as the *Jefferson Parish* record showed that the choice of provider of the tied services was restricted, the choice is likewise restricted here.

Third, just as the record in *Jefferson Parish* failed to show the effect of the tying arrangement on competition in a relevant market for the tied services, the record here fails to show the effect of the license agreements on competition in a market for the tied product. Considering just these facts, the outcome should be the same.

Moreover, Justice O'Connor's concurring opinion, joined by the Chief Justice, Justice Powell, and Justice Rehnquist, remarked that the Court had never been willing to declare *all* tying arrangements illegal, without proof of market power or anticompetitive effect; further, the *per se* doctrine in tying cases always called for an elaborate inquiry into the economic effects of the tying arrangement. 466 U.S. at 34, 104 S.Ct. at 1570 (concurring opinion). Market power might be acquired via a patent or via unlawful monopolization.[3] Tying may be economically

[3] In dicta, the majority opinion of the Court said that if "the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." 466 U.S. at 16, 104 S.Ct. at 1560.

harmful when power in the tying product is used to create additional market power in the market for the tied product.

Justice O'Connor set forth three threshold criteria: (1) market power in the tying product, (2) a substantial threat of market power in the tied product, and (3) a coherent economic basis for treating the products as distinct. 466 U.S. at 37-41, 104 S.Ct. at 1571-73. Even when these are met, the tie-in may be acceptable, for it may yield economic benefits as well as harms. All this must be balanced in a rule of reason analysis. "It may, for example, be entirely innocuous that the seller exploits its control over the tying product to 'force' the buyer to purchase the tied product." 466 U.S. at 41, 104 S.Ct. at 1574 (concurring opinion).

The reasoning of the concurring opinion is a further basis why the presumption should not apply. There has been no analysis of the effects of the tie-in in the market for the tied product. Accordingly, the decision of the court of appeals reversing the district court as to the Sherman Act Section 1 claim should be reversed.

II. THE ISSUANCE OF A PATENT SHOULD NOT RAISE A PRESUMPTION OF MARKET POWER IN THE TYING PRODUCT

What distinguishes the case at bar from *Jefferson Parish* is that the tying product is a patented product, unlike in *Jefferson Parish*. Hence the issue is whether the fact that some patent applies to the tying product is enough, by itself, to justify a presumption of market power and relieve the complainant of having to prove the requisite economic elements.

IPLAC considers it illogical to presume the existence of sufficient market power simply because *some aspect* of a product in that market is protected by a patent.

A. The Patent May Be Directed to a Narrow Improvement

An article of manufacture, machine, or composition of matter may embody hundreds or conceivably thousands of patented inventions. In any complex machine or commercial article, it is generally not the case that one patent or even a handful of patents confers market power on the patentee. This Court has recognized as "common knowledge that a patent does not always confer a monopoly over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the patent privileges is slight." *Northern Pacific Rwy.*, 356 U.S. at 10, n.8, 78 S.Ct. at 520. Whether a patent confers market power in a relevant field of commerce is a question that is not answered by the mere existence of a patent. Examination of the patent and the market is required.

B. The Technology May Have Cross-Licensed Patents, Diminishing the Importance of Any Single Patent

Further, in most areas of developed technology, many competitors hold patents. It is common for competing parties to cross-license their patents. This further militates against a presumption that merely having one or more patents covering some aspect of a product always conveys market power. In the automotive field, for example, there are several competitors, each having a great

number of extant patents which cover hundreds or thousands of aspects of the automobile. One patent or one portfolio of patents by one competitor should not establish without further examination that the patent owner has market power in a defined market.

C. The Patent May Be Superannuated

Just as patents have varying scope defined by their respective claims, the market power of a patent can also be related to the relationship of the patent to technology extant in the marketplace. Consider, for example, the technology for a 3.5-inch floppy diskette for portable data storage for computers. While patents generally endure 20 years from the earliest filing date, this product today has essentially been superseded by other memory technologies. Many laptop computers are sold without a floppy diskette reader. Instead, such computers now favor readable or writable optical disks, and they almost uniformly permit the use of portable semiconductor memory connectable via a USB port on the computer. Hence, the existence of unexpired patents today covering floppy diskettes does not, standing alone, indicate that the patent owner has market power in the removable data storage device field. It is not reasonable to presume that the existence of *any* patent creates market power.

Hence, there are many occasions when a patent does not imply market power. Inferring market power is illogical.

III. RAISING A PRESUMPTION WHEN A TYING PRODUCT IS PATENTED DISCOURAGES PATENTING

IPLAC supports the patent system, which serves absolutely vital interests in the economy. IPLAC suggests that relieving an antitrust complainant of having to muster evidence of an antitrust violation, merely because the tying product happens to be covered in some way by one or more patents, penalizes all patent owners. Essentially, the presumption of market power means that patent owners which use their patents commercially are disadvantaged. If a patentee requires the purchase of an unpatented product in order to obtain the patented one, and a complainant proves that a not insubstantial amount of business is involved, the patentee is in a completely defensive posture. Now it must devote very substantial resources to defend a complex antitrust case. The patent owner must develop expert testimony on arcane topics.

Meanwhile, the patent owner's non-patenting competitor does not face the perils of the presumption. The non-patenting competitor can use tying arrangements, secure in the knowledge that if anyone in the marketplace complains about his tying, that complainant will not benefit from a presumption of market power. That is, any antitrust complainant injured by the non-patentee's tying would have to establish *all* elements of tying with evidence showing liability under a rule of reason test. This clearly is uneven treatment.

Hence, the antitrust presumption against patent owners who commercialize their inventions is effectively a penalty or disincentive to innovate or patent an innovation.

IV. THE BENEFITS OF THE PRESUMPTION DO NOT OUTWEIGH ITS HARM

This Court should consider whether the harms caused by the presumption are outweighed by the benefits, if any, of the presumption. While some competitors may eschew patenting and others will avoid tying to patented goods or services, still others will both patent *and* tie the sale of non-patented goods to patented ones, notwithstanding the presumption. The presumption increases the exposure of patentees to antitrust litigation, as competitors will take advantage of the presumption (as Independent Ink seeks to do here). Not only do patentees who tie face a heightened likelihood of litigation, but also their expenses of litigation (due to the difficulty of rebutting the presumption) and their risk of an unfavorable outcome are heightened. In light of the rationale of this Court's *Jefferson Parish* decision calling for an incisive analysis of the effects on the proper market, it is highly dubious in IPLAC's view that the mere ownership of a patent covering some aspect of the tying goods or services justifies these shifts in cost and risk. Thus, IPLAC submits that the benefits of the presumption are essentially speculative in this context.

The analysis would be incomplete, however, without also considering the potential harm in eliminating the presumption. Query whether the presumption is truly needed to dissuade patentees from tying the sale of non-patented goods or services to patented ones. Is the presumption necessary to dissuade an automobile manufacturer owning patents on automobiles from contractually requiring the use of genuine, new replacement parts from itself and no other source during repair or reconstruction, or to dissuade a printer manufacturer owning patents on

printers from contractually banning the refilling of empty ink or toner cartridges, or to dissuade a manufacturer of medical equipment owning patents on the equipment from specifying the source of consumables used with the equipment? Can this Court conclude that it is *probable* that without the presumption, tying agreements will become rampant *and that competition will be harmed with no counter-balancing social benefit*?

IPLAC submits that such a conclusion is speculative. IPLAC believes that the market will address most of these concerns. IPLAC believes that the illustrative tie-ins will not be embraced by the marketplace, and consumers will purchase automobiles, printers, or medical equipment from other sources who do not impose such requirements.

Moreover, if competition is indeed harmed by such tying activity, aggrieved parties would still have recourse under the Sherman Act even without the presumption. Their burden would be just the same as others. The existence of the patent would be one factor to consider, along with all other relevant factors. If the economic effect of tying be sufficient, they can obtain relief under the antitrust laws. IPLAC sees no reason why the existence of a patent should justify special relief for competitors via the presumption.

CONCLUSION

IPLAC respectfully urges the Court to declare that no presumption arises that a patent confers market power for tying purposes and that the rule of reason applies in determining whether a tying arrangement is lawful under Section 1 of the Sherman Act.

Respectfully submitted,

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IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS INC. *et al.*,
Petitioners,

v.

INDEPENDENT INK, INC.
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

MOTION FOR LEAVE TO FILE BRIEF FOR *AMICUS CURIAE* AND BRIEF OF *AMICUS CURIAE OF* INTELLECTUAL PROPERTY OWNERS ASSOCIATION IN SUPPORT OF CERTIORARI

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MOTION FOR LEAVE TO FILE BRIEF *AMICUS CURIAE* OF INTELLECTUAL PROPERTY OWNERS ASSOCIATION IN SUPPORT OF CERTIORARI

Pursuant to this Court's Rule 37.2, Intellectual Property Owners Association (IPO) respectfully moves for leave to file the attached brief *amicus curiae* in this case. The consent of the petitioner has been obtained. The consent of the respondent, Independent Ink, Inc., was requested but refused.

Amicus IPO is a national organization consisting of hundreds of large and mid-size companies, small businesses, universities, inventors, authors, executives, law firms and individual and attorneys. IPO is the only association in the U.S. that serves all intellectual property owners of patents, trademarks, copyrights and trade secrets in all industries and all fields of technology. IPO regularly represents the interests

of its members before Congress, the U.S. Patent and Trademark Office, and federal courts. The association adheres to a policy of submitting *amicus* briefs only on significant issues affecting the owners of intellectual property rights.

IPO and its members have a substantial interest in the questions presented by the Petitioner. In filing this brief, IPO seeks to bring to the Court's attention arguments and viewpoints in addition to those expressed in the petition for writ of certiorari. For example, IPO's brief points out that the Federal Circuit decision in *Independent Ink, Inc. v. Illinois Tool Works, Inc.* 396 F.3d 1342 (Fed. Cir. 2005), *petition for cert. filed*, 73 U.S.L.W. 3604 (U.S. Apr. 4, 2005) (No. 04-1329) in adhering to the precedential holding of *International Salt Co. v. United States*, 332 U.S. 392 (1947) and *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948), reaffirmed in *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), holding that the mere fact of the existence of a patent on the tying product creates a presumption of market power in the relevant market in tie-in cases under Section 1 of the Sherman Act (15 U.S.C. § 1), is not justified under current economic realities. Because there often may be close substitutes in the relevant market for the patented tying product to prevent the exercise of market power, there is no rational justification for a presumption of market power based upon the mere fact of patent ownership. The presumption ignores the need to define the relevant market and any analysis of whether the patent really conveys power in such market. The presumption impedes robust development in a global economy, and antitrust plaintiffs in tying cases involving patents should be required, like all other tying plaintiffs, to prove that the seller has market power in the tying product.

In summary, IPO's brief provides the Court with the perspective of a national association having members in all major industries and fields of technology, and the perspective of parties concerned about the effects on the patent system beyond the present case.

Respectfully submitted,

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v.

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On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF *AMICUS CURIAE* OF INTELLECTUAL PROPERTY OWNERS ASSOCIATION IN SUPPORT OF CERTIORARI

INTEREST OF *AMICUS CURIAE*

Amicus Curiae Intellectual Property Owners Association (IPO), a tax-exempt association, is a national organization founded in 1972 to represent the owners of intellectual property in the United States.[1] IPO's members currently include over 150 large and mid-sized companies and over 250

[1] Pursuant to this Court's Rule 37.6, *amicus* represents that this brief was not authored in whole or in part by counsel for any party. Petitioner, an IPO member, made no monetary contribution to the preparation or submission of this brief beyond normal membership dues payments. No other person or entity made a monetary contribution other than IPO, its members, or its counsel.

small businesses, law firms, inventors, authors, executives and attorneys who own or are interested in patents and other forms of intellectual property in any industry or field of technology. IPO members are granted about 30 percent of the patents issued by the U.S. Patent and Trademark Office to U.S. nationals. IPO regularly represents the interests of its members before Congress and the U.S. Patent and Trademark Office, and has filed *amicus curiae* briefs in this Court and other courts on significant issues of intellectual property law.

IPO expressly declines to take any position on whether there is a factual basis for finding market power. IPO is concerned with the interests of all of its members in all industries and all fields of technology. IPO believes that while the Federal Circuit strictly applied Supreme Court precedent, the market power presumption unfairly singles out patent holders and creates a tension with modern economic theory. The Federal Circuit's *Independent Ink* opinion, if not vacated or modified by the Court, will adversely affect existing and future patent rights of a large number of IPO members.

In this brief, IPO explains the how the Federal Circuit's *Independent Ink* decision could affect the outcome of this and future cases. IPO believes its brief will be helpful to the Court in considering Petitioners' writ of certiorari. The filing of this brief was approved by IPO Board of Directors, the members of which are listed in the Appendix.

INTRODUCTION

The United States Court of Appeals for the Federal Circuit reversed the summary judgment that had been granted in favor of Petitioners Illinois Tools Works, Inc. ("ITW") and Trident, Inc. ("Trident") under a Sherman Act Section 1 (15 U.S.C. § 1) theory brought in a tie-in case in the district court involving Trident and ITW's U.S. Patent No. 5,343,226 ("the `226 patent"). The Federal Circuit panel, in reversing the

summary judgment granted in favor of ITW and Trident, relied on the holdings in *International Salt Co. v. United States*, 332 U.S. 392 (1947), and *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), and held that patent and copyright tying, unlike other tie-in cases, does not require a showing of market power. Instead, "*International Salt* and *Loew's* make clear that the necessary market power to establish a section 1 violation is presumed."[2] The Federal Circuit denied ITW and Trident's request that the Federal Circuit hold that *International Salt* and *Loew's* were no longer good law. The Federal Circuit concluded that, despite the perceived inadequacies of "the two cases," it still "remains the '[Supreme] Court's prerogative alone to overrule one of its precedents.'" *Indep. Ink, Inc., v. Ill. Tool Works, Inc.*, 396 F.3d 1342, 1351 (Fed. Cir.), *petition for cert. filed*, 73 U.S.L.W. 3604 (U.S. Apr. 4, 2005) (No. 04-1329) (quoting *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997)).

Our members believe that the decisions of *International Salt* and *Loews* should at long last be overruled. The Federal Circuit's *Independent Ink* opinion, if not vacated or modified by the Court by eliminating the presumption of market power in patent tie-in cases established under *International Salt* and *Loews's*, will adversely affect existing and future patent rights of a large number of IPO members. IPO believes its brief will be helpful to the Court in considering Illinois Tool Works and Trident, Inc.'s petition for writ of certiorari.

SUMMARY OF ARGUMENT

The burden of proving market power should be placed and remain on the antitrust plaintiff in a patent tie-in case, just as it is in any tying case not involving a patent or copyright. There should be no presumption that because the tying

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[2] *Indep. Ink, Inc. v. Ill. Tool Works, Inc.*, 396 F.3d 1342, 1348-49 (Fed. Cir.), *petition for cert. filed*, 73 U.S.L.W. 3604 (U.S. Apr. 4, 2005) (No. 04-1329).

product is patented, it somehow inherently defines the relevant market and mandates a finding of market power.

There are compelling reasons for now reconsidering the market power presumption in tie-in cases involving a patent. Such presumption is at odds with the Court's contemporary approach as to how an antitrust plaintiff must prove market power in non-patent tying cases. The application of the presumption of market power theory in a patent tie-in case has been repeatedly rejected by the Federal Trade Commission and the Department of Justice, two federal antitrust enforcement agencies responsible for enforcing the nation's antitrust laws. The presumption has been questioned by several circuit courts and antitrust commentators, as an unfair burden imposed upon patent and copyright owners that does not extend to any other type of antitrust defendant involved in a tie-in case. The *Independent Ink* case cleanly presents the opportunity to the Court of deciding the validity *vel non* of the presumption's application to antitrust enforcement in view of modern economic theories. The Court should grant the petition to resolve this important question of antitrust law.

ARGUMENT

I. THERE SHOULD BE NO PRESUMPTION THAT A PATENT DEFINES AND CONFERS MARKET POWER IN A RELEVANT MARKET ON A TYING PRODUCT UNDER SECTION 1 OF THE SHERMAN ACT

The Federal Circuit stated that it was compelled to follow this Court's precedent that a rebuttable presumption of market power arises from the mere possession of a patent on the tying product sufficient to establish a prima facie Sherman Act Section 1 (15 U.S.C. § 1) patent tying claim.[3] This

[3] Tying arrangements violate Section 1 of the Sherman Act (15 U.S.C. § 1) "if the seller has 'appreciable economic power' in the tying product market and if the arrangement affects a substantial volume of commerce in the tied market.'" *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 462 (1992) (citation omitted).

Court established such precedent more than 50 years ago in *International Salt Co. v. United States*, 332 U.S. 392 (1947) and *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948), and re-affirmed in *United States v. Loew's, Inc.*, 371 U.S. 38 (1962),[4] where it held that the presumption that market power exists in a tie-in case when the tying product is patented or copyrighted and is sufficient to establish a prima facie Sherman Act Section 1 (15 U.S.C. § 1) right of action. That precedent should now be overturned, as it is contrary to modern economic theory involving tie-ins. Instead, just as in any other tie-in case, the burden of proof should remain wholly on the antitrust plaintiff to establish market power in a patent tie-in case as one of several elements of a cognizable Sherman Act Section 1 (15 U.S.C. § 1) claim. Tie-in cases involving a patent on the tying product should not be treated any differently. The Court should act to overturn the presumption of market power in intellectual property tie-in cases crafted in *International Salt* and *Loew's* and keep the entire burden of proving market power on the antitrust plaintiff to harmonize the law with non-patent tie-in cases.

A. The Burden of Proving Market Power Should Remain on the Antitrust Plaintiff in a Patent Tying Case Without the Benefit of a Market Power Presumption

The standards for patentability should not be construed to be equal to the standards of economic power necessary to support anticompetitive behavior in the relevant market. The

[4] Relying on the holding in *International Salt* and *Paramount Pictures*, the Court held that where the tying product is patented or copyrighted, market power may be presumed rather than proven. *Loew's*, 371 U.S. at 45.

burden of proving market power in tie-in cases involving a patent on the tying product should be held to rest solely on the antitrust plaintiffs in proving their case—no different than the burden faced by antitrust plaintiffs when they attempt to prove anticompetitive effects in tie-in cases not involving intellectual property. This Court long ago recognized that there is nothing inherently anticompetitive about patent ownership. *Mazer v. Stein*, 347 U.S. 201, 219 (1954) ("The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and useful Arts.'") Moreover, this Court has also observed that "'A patent by its very nature is affected with a public interest. . . . (It) is an exception to the general rule against monopolies and to the right to access to a free and open market." *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971) (citing *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945)). Many courts when faced with a tie-in case have concluded that a patent on the tying product alone does not confer market power.[5]

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[5] *Am. Hoist & Derrick Co. v. Sowa & Sons., Inc.*, 725 F.2d 1350, 1367 (Fed. Cir. 1984) ("patent rights are not legal monoplies in the antitrust sense of that word."); *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325-26 (Fed. Cir. 2000) ("A patent alone does not demonstrate market power."); *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 872 (Fed. Cir. 1997) ("Violation of the antitrust laws always requires . . . market power in a defined relevant market (which may be broader than that defined by the patent . . . ."); *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665, 673 n.4 (7th Cir. 1985) (Easterbrook, J.); *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 511 (7th Cir. 1982) (Posner, J.) ("[O]f course, not every patent confers market power . . . ."); *Schlafly v. Pub. Key Partners*, No. 94-20512 SW, 1997 WL 564073, at *4 (N.D. Cal. Aug. 29, 1997) ("A patent does not of itself establish a presumption of market power in the antitrust sense.") (citations omitted), *aff'd*, 155 F.3d 565 (Fed. Cir. 1998) ("Mere possession of a patent, or a family of patents, does not establish a presumption of antitrust market power."); *F.B. Leopold Co., v. Roberts Filter Mfg. Co.*, 882 F. Supp. 433, 454 (W.D. Pa. 1995) (patent on porous plate, the tying product, insufficient to establish market power), *aff'd*, 119 F.3d 15 (Fed. Cir. 1997); *Chiuminatta Concrete Concepts, Inc. v. Target Prods., Inc.*, No. CV 92-1523 LGB (SX), 1992 WL 465720, at *4 (C.D. Cal. Dec. 2, 1992) (patent on certain skid plates, the tying products, insufficient to establish market power in tying claim), *aff'd*, 19 F.3d 41 (Fed. Cir. 1994); *Atari Games Corp. v. Nintendo of Am. Inc.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990) ("[T]he aims and objectives of patent and antitrust laws may seem, at first glance, wholly at odds. However, the two bodies of law are actually complementary, as both are aimed at encouraging innovation, industry and competition.").

Patent rights are derived from the Constitution,[6] and as interpreted by Congress, a patent grants inventors "'the right to exclude others from making, using, offering for sale, selling, or importing the patented invention,' in exchange for full disclosure of an invention." *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 372 (1996) (quoting H. Schwartz, *Patent Law and Practice* 1, 33 (2d ed. 1995)). The grant of a U.S. patent conveys a unique form of property, with the rights to exclude others from using the invention if certain criteria are met,[7] as "patents are not given as favors . . . but are meant to encourage invention by rewarding the inventor with the right, limited to a term of years fixed by the patent, to exclude others from the use of his invention." *Eldred v. Ashcroft*, 537 U.S. 186, 215-16 (2003) (quoting *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229-30

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[6] "The [U.S.] Constitution empowers Congress '[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.' U.S. Const. art. I, § 8, cl. 8. Congress first exercised this authority in 1790, when it provided for the issuance of 'letters patent,' Act of Apr. 10, 1790, ch. 7, § 1, 1 Stat. 109." *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 372 (1996).

[7] "The claimed subject matter must be useful, novel, and not obvious." *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 736 (2002) (citing 35 U.S.C. §§ 101-103 (1994 ed. and Supp. V)).

(1964)). In essence, a patent is merely a time-limited opportunity to try to capture a return on an investment of time and capital. A patent is not a guarantee that the patentee will ever earn anything from that bundle of rights granted by Act of Congress. The gamble that the inventor invariably is compelled to take once she submits an application to the Patent Office is that the relevant market may not be mature enough to appreciate the commercial aspects of the invention during the patent's enforceable period.[8] Simply stated, the market's inability to recognize or calculate the value of an invention is one of the hazards of a limited patent term. *See* Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse* 55 Hastings L.J. 399, 445 (2003).

Indeed, there can be no argument that the grant of a patent is the grant of a statutory monopoly, just as the grant of patents in England was an explicit exception to the statute of James I prohibiting monopolies. *See Sears*, 376 U.S. at 229-30 (citing *The Case of Monopolies* (*Darcy v. Allein*), 77 Eng. Rep. 1260 (K.B. 1602)). However, the standards for patentability should not be construed to equate with the standards of economic power necessary to support anticompetitive behavior in the relevant market.[9] It is only at a minimum threshold that before a patent is granted, the claimed subject

[8] It should be noted that Congress has also long enjoyed the right to modify or even extend the term of the limited patent monopoly when it sees fit by exercising its "constitutional right to confer a new and further term on the patentee." *Blanchard v. Haynes*, 3 F. Cas. 628, (C.C.D.N.H. 1848) (No. 1512) (citing *Stimpson v. W. Chester R Co.*, 45 U.S. (4 How.) 380 (1846); *Evans v. Jordan*, 13 U.S. (9 Cranch) 199 (1815); *Grant v. Raymond*, 31 U.S. (6 Pet.) 218 (1832).

[9] William Montgomery, *The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements*, Note, 85 Colum. L. Rev. 1140, 1149 (1985) ("[T]he existence of a patent or copyright provides little, if any, evidence of supernormal profits, barriers to entry, consumer preferences, or absence of adequate substitutes. It thus does not dispose of the question whether a product has market power.").

matter only "must be useful, novel, and not obvious." *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 736 (2002) (citing 35 U.S.C. §§ 101-103 (1994 ed. and Supp. V)). "The patent application must describe, enable, and set forth the best mode of carrying out the invention." *Id.* (citing 35 U.S.C. § 112 (1994)). Only these substantive requirements must be satisfied before issuance of the patent, for exclusive patent rights are given in exchange for disclosing the invention to the public. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989) ("The Patent Clause itself reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the 'Progress of Science and useful Arts.'"); *J.E.M. AG Supply, Inc. v. Pioneer Hi-Bred Int'l, Inc.*, 534 U.S. 124 (2001) ("The disclosure required by the Patent Act is 'the *quid pro quo* of the right to exclude.'" (quoting *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 484 (1974)); *Brenner v. Manson*, 383 U.S. 519, 534 (1966) ("The basic *quid pro quo* . . . for granting a patent monopoly is the benefit derived by the public from an invention with substantial utility."); *Graver Tank & Mfg. Co. v. Linde Air Prods. Co.*, 339 U.S. 605 (1950) (the disclosure of inventions, "is one of the primary purposes of the patent system").

IPO believes that petitioners' writ of certiorari should be granted so that the Court can determine that a patent, without more, merely is a grant of a property right to exclude others for limited times from making, using selling, offering to sell or importing into the U.S., the invention claimed in the patent, and cannot serve as a substitute for actual evidence of market power. The Court should act to harmonize the law for matters involving patent tie-ins with those of non-patent tie-in cases, which are only unlawful if the antitrust defendant has demonstrable market power in the relevant market for the tying product. *United States Steel Corp. v. Fortner Enters.*,

Inc., 429 U.S. 610, 620 (1977).[10] In tie-in cases not involving intellectual property, this Court has clearly held that there must be proof of "forcing" or market power resulting in an "actual adverse effect on competition" in the relevant market by the tying arrangement and that patents and copyrights are not synonymous with "market power." *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 29-31, 37 n.7 (1984).[11]

The principle behind the need to eliminate the presumption of market power can be shown by way of example. If an owner of an entire multi-unit condominium complex in a typical city required each buyer to dine in a mezzanine level restaurant in that building three times per week as a condition of purchasing a condominium unit, there should be no presumption that the multi-unit complex owner somehow has market power in the relevant tying condo market in that city sufficient to "force" buyers to purchase their meals in the mezzanine restaurant, i.e., the tied product. Market power would have to be proven by the antitrust plaintiff, not presumed as no intellectual property is involved, and it is

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[10] Determining market power requires making an inquiry into "whether the seller has the power, within the market for the tying product, to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market." The requirement of demonstrating sufficient market power to raise prices was notably more onerous than the *Northern Pacific* requirement that there be some power to "appreciably restrain free competition." *United States Steel*, 429 U.S. at 620 (citing *N. Pac. R. Co. v. United States*, 356 U.S. 1 (1958)).

[11] In *Jefferson Parish*, 466 U.S. at 37 n.7, Justice O'Connor wrote in concurrence:

> "A common misconception has been that a patent or copyright, a high market share, or a unique product that competitors are not able to offer suffices to demonstrate market power. While each of these three factors might help to give market power to a seller, it is also possible that a seller in those situations will have no market power: for example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product."

unlikely to exist in a city where much cross-elasticity of demand exists due to the existence of many other condominium complexes competing for a share of the potential buyer market.

The argument is no different if the property at issue is intellectual and not tangible. Whether the property is real property or intellectual property should not be a determinative factor in deciding whether the owner possesses market power, and to shift the burden of proof to the property owner to establish the lack of market power. The same principle should be applied to patent tie-in cases, where no market power should be presumed in the tying patented product just because it met the minimum standards for novelty, usefulness, and non-obviousness, all patentability criteria wholly unrelated to the economic factors underpinning modern antitrust theory.

IPO requests the Court to hold that no presumption of market power exists, rebuttable or otherwise, and the burden of proving market power should be held to reside on the antitrust plaintiff in a patent tying case.

B. There is No Rational Economic Basis for a Presumption of Market Power Because Patents Do Not Inherently Define A Relevant Market

As numerous commentators have recognized, merely owning a patent does not confer market power to the patent owner sufficient to satisfy the stringent requirements of a Sherman Act Section 1 (15 U.S.C. § 1) tie-in case. The assumptions underlying the presumption are invalid. The presumption is based on the mere right of a patent owner to exclude from practicing his or her invention without permission. This right to exclude does not confer market power on the patent owner for the simple reason that there may be close non-infringing substitutes for the patented product that would defeat any attempt by the patent owner to

exercise market power. Thus, the existence of non-infringing substitutes renders the market broader than that defined by the patent.

Indeed, the majority of patents lack real commercial value; to the extent that patents have inherent value, they face robust competition in the marketplace. For example, a company that has a 1% share of the personal computer market hardly has market power in that market merely because the company owns a patent that relates to one component of the computer. However, it is economically rational for the company to only sell the component inside of its computer. The recognition that a patent, without more, does not confer market power was recognized by Justice O'Connor in her concurring opinion in *Jefferson Parish* that "a patent holder has no market power in any relevant sense if there are close substitutes for the patented product." *Jefferson Parish* , 466 U.S. at 37 n.7.

Prominent antitrust scholars have also long expressed serious doubts about the alleged anticompetitive effects of tie-ins. Phillip E. Areeda, Einer Elhauge & Herbert Hovenkamp, *Antitrust Law* ¶ 1737c, at 82 (2d ed. 2004) ("If *Salt* really required power and inferred it from any patent, it erred. By contrast, if *Salt* was essentially indifferent to power over the tying product, it has been overruled by the legal rule adopted in *Fortner II* [*United States Steel Corp. v. Fortner Enters.*, 429 U.S. 610 (1977)] and *Jefferson Parish*."); Phillip Areeda & Donald F. Turner, *Antitrust Law* ¶ 1134b, at 205 (1980) (tying may simply be used as an efficient method of effecting lawful price discrimination, as a means of preserving consumer confidence in the performance of a complex product, or, in the case of servicing tied to distribution of a complex product, an efficient mode of generating information leading to product improvement."); Robert H. Bork, *The Antitrust Paradox*, 365, 372-75 (1978) ("The Supreme Court has seen in this tying together of transactions nothing but the

suppression of competition. . . . [I]t is safe to say that suppression of competition is the one function not accomplished by the arrangements the Court has struck down."); Richard A. Posner, *Antitrust Law*, 197-207 (2d ed. 2001) ("[t]he frequency with which patents have been involved in tie-in cases may stem from the fact that the earliest such cases were not antitrust cases at all. They were patent-misuse cases, where the issue was whether the patentee had improperly extended the patent monopoly by monopolizing an unpatented product tied to the patented product."(citing *Motion Picture Patents Co. v. Universal Films Mfg. Co.*, 243 U.S. 502 (1917)); Herbert Hovenkamp, *Federal Antitrust Policy* § 10.3 (2d ed. 1999) ("Most patents confer absolutely no market power on their owners. . . [The] economic case for 'presuming' sufficient market power . . . simply because the tying product is patented . . . is very weak.")

It is clear under the application of modern economic theory that the tying of a patented product will not grant the patent owner any power to affect the price of the tied product. There is no reason to assume that tying with a patented article would adversely affect the market for an unpatented tied article even if there are no substitutes as the patented tying article may not be worth enough to the buyer to unduly influence the market for the tied product.

C. The Market Power Presumption Deters Conduct by Patent Owners that Benefits Consumers

Historically, it has long been considered to be unprofitable and inefficient to bundle together large numbers of unrelated goods. However, some recent scholars have posited that tying increases the availability of goods, especially with respect to digital informational goods. Yannis Bakos & Erik Brynjolfsson, *Bundling Information Goods: Pricing, Profits and Efficiency*, Management Science (Dec. 1999) ("*Bundling*

Information Goods"); Yannis Bakos & Erik Brynjolfsson, *Bundling and Competition On The Internet*, Marketing Science (Jan. 2000).

Bundling very large numbers of unrelated information goods can be quite profitable. The reason is that the law of large numbers makes it much easier to predict consumers' valuations for a bundle of goods than their valuations for the individual goods when sold separately. A "predictive value of bundling" makes it possible to achieve greater sales, greater economic efficiency and greater profits per good from a bundle of information goods than can be attained when the same goods are sold separately. *See Bundling Information Goods* at 2-3.

Circuit courts since *Jefferson Parish*, have held or suggested that the mere ownership of a patent, *viz.*, a "legal monopoly" does not equate to market power sufficient to support a per se rule against tie-ins involving patents. *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673, 676-77 & n.3 (6th Cir. 1986) ("*Loew's* [was] overbroad and . . . we reject any absolute presumption of market power for copyright or patented product . . . such a presumption is not warranted merely by existence of a copyright or patent."); *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505 (7th Cir. 1982) (suggesting *in dicta* that proof of market power may be required in patent and copyright tie-ins); *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665 (7th Cir. 1985)

IPO requests the Court to hold that there is no rational economic basis for a presumption of market power because patents do not inherently define a relevant market; the burden of proving market power should be held to reside on the antitrust plaintiff in a patent tie-in case.

D. The Market Power Presumption Facilitates the Assertion of Baseless Antitrust Counterclaims by Infringers

Baseless antitrust claims will deter patent owners from attempting to properly protect their patents from infringers. A clear harmful effect in the practical application of the presumption is that it provides an incentive to patent infringement defendants to bring Sherman Act counterclaims against patentees who are only properly seeking to enforce their patent rights by bringing infringement suits. The windfall of the burden shift onto the patentee to rebut a presumed market power element raises the likelihood that meritless or weak antitrust claims will survive motions to dismiss and summary judgment. The presumption blunts the patentee's underlying patent infringement case, and increases the risk to the public that a potentially invalid patent will not be judicially examined or patent claim terms not be construed, as the risk of incurring statutorily mandated treble damages for Sherman Act liability tips the scales towards a rush to settle the underlying patent action and antitrust counterclaims, to avoid the expense, and treble damages risk, of an extended antitrust trial. It seems likely that in the intervening decades since *International Salt* was decided, the presumption has invariably been used in antitrust counterclaims in patent infringement cases to increase the cost of owning and enforcing patented intellectual property. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 593 (1986) (citation omitted) (The "effect" of implausible inferences to require a jury trial "is often to deter procompetitive conduct.")

E. The Department of Justice and Federal Trade Commission Do Not Apply a Presumption of Market Power When Evaluating a Tie-In Case Involving a Patent on the Tying Product

Perhaps the most persuasive support for IPO's argument that the time is ripe to eliminate the market power presumption are the policies promulgated by the two agencies of the executive branch empowered with enforcing the federal antitrust laws, *viz.*, the Department of Justice and Federal Trade Commission ("the Agencies"). The Agencies have squarely rejected the notion that merely having a patent on the tying product somehow confers a prima facie presumption of market power.[12] Instead, the Agencies have elected to closely follow the guidance provided by Justice O'Connor's concurrence in *Jefferson Parish*, and require an antitrust plaintiff *to prove* market power. The Guidelines expressly state they are based on three underlying principles: "(a) for the purpose of antitrust analysis, the Agencies regard intellectual property as being essentially comparable to any other form of property; (b) *the Agencies do not presume that intellectual property creates market power in the antitrust context*; and (c) the Agencies recognize that intellectual property licensing allows firms to combine complementary factors of production and is generally procompetitive." U.S. Dept of Justice & Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* § 2 (1995)[13] (emphasis added).

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[12] U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* § 5.3 (1995) (the "Guidelines").

[13] The pro-competitive effects of patenting were also recently discussed by the DOJ and FTC after a series of public hearings set forth in the recent Report by the Federal Trade Commission "To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy" Chap. 6 (October 2003).

The Court should carefully weigh that both federal Agencies have repeatedly made clear that patent tying arrangements frequently result in significant efficiencies and procompetitive benefits.[14] The fact that the two principal federal antitrust enforcement agencies decline as part of their prosecutorial discretion to "presume" market power when evaluating a patent tie-in case lends strong support that it is the appropriate time to overturn the market power presumption originating under *International Salt*, a case that was decided in the economic climate that followed in on the heels of the Great Depression and the Second World War in the first half of the last century.

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[14] The Agencies' joint policy is that they "[w]ill not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner." Guidelines § 5.3; R. Hewitt Pate, Acting Assistant Attorney General, *Antitrust and Intellectual Property*, Address before the American Intellectual Property Law Association. (Jan. 24, 2003), *available at* http.//www.doj.gov/atr/public/speeches/200701.pdf ("Because patents do not necessarily confer market power, there is no presumption that tying arrangements involving patented products necessarily are illegal.") (citing the Guidelines § 5.3); Makan Delrahim, Deputy Assistant Attorney General, *Contemporary Issues at the Intersection of Intellectual Property and Antitrust*, Remarks made before the Fair Competition & Market Economy 2004 Shanghai International Forum, Shanghai, China, (Nov. 10, 2004), *available at* http://www.doj.gov/atr/public/speeches/206607.pdf (the DOJ recognizes that "[c]lose substitutes in the marketplace may foreclose the [patented product] from realizing any meaningful return") (citing the Guidelines §§ 2.1-2.2).

CONCLUSION

The Petitioner's writ of certiorari should be granted.

Respectfully submitted,

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APPENDIX

APPENDIX

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No. 04-1329

In the Supreme Court of the United States

ILLINOIS TOOL WORKS INC., ET AL., PETITIONERS

v.

INDEPENDENT INK, INC.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE SUPPORTING PETITIONERS

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QUESTION PRESENTED

To establish that a tying arrangement constitutes a per se violation of Section 1 of the Sherman Act, 15 U.S.C. 1, an antitrust plaintiff must prove that the defendant has "appreciable economic power" in the tying product market. See *Eastman Kodak Co.* v. *Image Technical Servs., Inc.*, 504 U.S. 451, 462 (1992). The question presented in this case is whether the courts should recognize a special exception for patented products, in the form of a rebuttable presumption of market power.

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In the Supreme Court of the United States

No. 04-1329

ILLINOIS TOOL WORKS INC., ET AL., PETITIONERS

v.

INDEPENDENT INK, INC.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES
AS AMICUS CURIAE SUPPORTING PETITIONERS

INTEREST OF THE UNITED STATES

The Department of Justice and the Federal Trade Commission have primary responsibility for enforcing the federal antitrust laws and accordingly have a strong interest in the correct application of those laws. They have issued guidelines specifically addressing the question presented in this case and rejecting as a matter of antitrust enforcement policy the presumption that patents confer market power. See *Antitrust Guidelines for the Licensing of Intellectual Property*, 4 Trade Reg. Rep. (CCH) ¶ 13,132 (1995).

STATEMENT

1. Petitioner Illinois Tool Works (ITW), through its Trident division, manufactures a patented piezoelectric ink jet printhead, a patented ink container, and non-patented ink specially formulated for use in Trident's printhead system.

Pet. App. 20a. Printing equipment manufacturers (the original equipment manufacturers or OEMs) incorporate Trident's system into printers that are used to print bar codes on product cartons. *Ibid.* OEMs are also able to obtain comparable technology from other sources. At least two other companies have developed printheads capable of printing bar codes on cartons. *Id.* at 22a. Product manufacturers also use labeling systems to print bar-coded labels that can be affixed to cartons. *Ibid.* Those other companies and systems compete with Trident's printhead system. *Ibid.*

Trident licenses its patented products to OEMs as a package. Pet. App. 21a. Petitioners do not dispute that Trident's licenses require OEMs to use only ink supplied by Trident in single-use containers or that those licenses also prohibit both OEMs and end users from re-filling Trident ink containers. See *ibid.* Petitioners assert, however, that the OEM licenses do not prevent end users from using ink containers and ink from third-party manufacturers. *Ibid.*

2. Respondent Independent Ink, Inc. (Independent) is a distributor and supplier of printer ink and ink products. Pet. App. 20a. Independent brought this action to obtain a declaratory judgment of non-infringement and invalidity with respect to two of Trident's patents. *Id.* at 22a. Independent later amended its complaint to allege, among other things, that petitioners engaged in unlawful tying in violation of Section 1 of the Sherman Act, 15 U.S.C. 1. Pet. App. 22a-23a. Independent also alleged that petitioners monopolized, attempted to monopolize, and conspired to monopolize the market for ink used in Trident's printhead system, in violation of Section 2 of the Sherman Act, 15 U.S.C. 2. Pet. App. 23a.

Petitioners and Independent filed cross-motions for summary judgment on Independent's Section 1 tying claim, and petitioners also moved for summary judgment on Independent's Section 2 monopolization claim. In asserting its Section 1 claim, Independent relied solely on a per se, rather than a "rule of reason," theory of liability. See Pet. App. 23a-24a ("Plaintiff does not argue that Defendants' tying arrangements violate the Sherman Act pursuant to the Rule of Reason."). The district court denied Independent's motion for summary judgment and, instead, granted summary judgment for petitioners on both claims. *Id.* at 38a, 49a, 56a.

The district court observed that Independent's Section 1 per se tying claim required proof of four elements, including market power in the relevant market for the tying product. Pet. App. 28a. See *Jefferson Parish Hosp. Dist. No. 2* v. *Hyde*, 466 U.S. 2, 12-18 (1984). The court rejected Independent's contention that a patent on the tying product, standing alone and as a matter of law, establishes the requisite coercive economic power in the market for the tying product, finding that "[t]he weight of authority is to the contrary." Pet. App. 30a. The district court was not persuaded otherwise by Independent's recitation of "several vintage Supreme Court cases," including *United States* v. *Loew's, Inc.*, 371 U.S. 38 (1962), and *International Salt Co.* v. *United States*, 332 U.S. 392 (1947). Pet. App. 34a n.10.

The district court determined that those decisions were not controlling because "[t]he Court's language concerning presumptions of market power based upon patents arose at a time when genuine proof of power in the market for the tying product was not required." Pet. App. 34a n.10 (citing 10 Phillip E. Areeda et al., *Antitrust Law* ¶ 1737a (1996)). The court noted that, in this case, Independent produced "no evidence from which a reasonable trier of fact could define the relevant product and geographic markets" and failed to "proffer any evidence that Defendants possess market power by virtue of their market share or that the market for the tying product contains barriers to entry." *Id.* at 49a. The

court accordingly granted summary judgment against Independent on its Section 1 theory. *Ibid.*[1]

3. The court of appeals reversed the district court's grant of summary judgment on the Section 1 claim. Pet. App. 5a-17a. The court stated that "the Supreme Court's cases in this area squarely establish that patent and copyright tying, unlike other tying cases, do not require an affirmative demonstration of market power." Pet. App. 9a. "Rather, *International Salt* and *Loew's* make clear that the necessary market power to establish a section 1 violation is presumed." *Ibid.* The court of appeals acknowledged that "the Supreme Court precedent in this area has been subject to heavy criticism" and that other courts of appeals have reached a different result, *id.* at 12a-13a, but it concluded that it was bound by *International Salt* and *Loew's* to recognize that "there is a presumption of market power in patent tying cases," *id.* at 14a. The court observed that "[t]he time may have come to abandon the doctrine, but it is up to the Congress or the Supreme Court to make this judgment." *Ibid.*

The court of appeals determined that Trident's patents established only a rebuttable presumption of market power, Pet. App. 14a-15a, but the court concluded that petitioners' evidence of competition from two rival printhead systems and from bar code labeling systems was insufficient as a matter of law to overcome that presumption, *id.* at 16a-17a. The court of appeals therefore reversed the district court's grant of summary judgment on the Section 1 claim, but it remanded the case "to permit [petitioners] an opportunity to supplement

[1] The district court also concluded that petitioners were entitled to summary judgment on the Section 2 claim because Independent proffered no evidence concerning the relevant product or geographic markets and no relevant evidence of Trident's alleged monopoly power. Pet. App. 54a-56a. The Section 2 claim is not before this Court.

the summary judgment record with evidence that may rebut the presumption." *Id.* at 17a.[2]

SUMMARY OF ARGUMENT

A. This Court's decisions under Section 1 of the Sherman Act restrict per se condemnation of tying arrangements to those situations in which the defendant has coercive economic power in the tying product market that it uses to impair competition in the tied product market. See, *e.g.*, *Eastman Kodak Co.* v. *Image Technical Servs., Inc.*, 504 U.S. 451, 462 (1992); *Jefferson Parish Hosp. Dist. No. 2* v. *Hyde*, 466 U.S. 2, 12-18 (1984). The court of appeals' application of a presumption that patents confer market power is inconsistent with the rationale of those decisions, and it conflicts with the Court's teaching that per se rules are properly applied only to conduct that is almost always anticompetitive.

B. There is no economic basis for inferring market power from the mere fact that the defendant holds a patent. That view is shared by diverse members of the antitrust community—including scholars, enforcement agencies, and Congress. Such an inference would confound two quite distinct concepts: the legal right under intellectual property law to exclude a copyist's infringing products and the economic concept of market power. While a patent can provide significant protection from competition, only a small percentage of patents actually confer significant market power. Those relatively rare instances cannot support a sweeping presumption

[2] The court of appeals affirmed the district court's grant of summary judgment for petitioners on the Section 2 claim. It observed that "[t]he presumption of illegality in patent tying arises in section 1 cases" and that "[n]either *International Salt* nor *Loew's* dealt with section 2." Pet. App. 17a. The court concluded that the normal burdens of proof therefore apply, that "the plaintiff bears the burden of defining the market and proving defendant's power in that market," and that Independent failed to carry its burden in this case. *Id.* at 18a.

of market power whenever the tying product is patented. Instead, before invoking a rule of per se illegality, courts should always make a careful inquiry into the realities of the relevant market, whether or not the tying product is patented. The existence of a patent is relevant to the question of market power, and patentees may indeed possess such power in particular cases, but a court should consider evidence specific to the market at issue.

C. The court of appeals was mistaken in concluding that this Court's decisions require courts to apply a presumption that patents confer market power. The Court's decisions in *United States* v. *Loew's, Inc.*, 371 U.S. 38 (1962), and *International Salt Co.* v. *United States*, 332 U.S. 392 (1947), rest on a congressionally repudiated view of the scope of patent rights, and they predate the Court's articulation of the market power requirement and accordingly reflect the now-outdated assumption that proof of significant market power is unnecessary to support a per se tying violation. See 10 Phillip E. Areeda et al., *Antitrust Law* ¶ 1737a-1737c, at 80-83 (2d ed. 2004) (*Antitrust Law*). If, contrary to the government's view, that assumption has somehow survived this Court's decisions in *Eastman Kodak*, *Jefferson Parish*, and other similar cases, the Court should now expressly reject it as inconsistent with mature principles of antitrust law. See, *e.g.*, *State Oil Co.* v. *Khan*, 522 U.S. 3, 21 (1997).

D. Because the court of appeals misread this Court's decisions to require the presumption that patents confer market power, it noted but gave no weight to the mismatch between the presumption and the procompetitive policies of antitrust law. The presumption is an anomalous legal shortcut, encouraging meritless antitrust claims while discouraging innovation and efficiency-enhancing business practices. Those considerations confirm that the presumption should be rejected.

ARGUMENT

COURTS SHOULD NOT PRESUME THAT A PATENT CONFERS THE MARKET POWER NECESSARY TO ESTABLISH THAT TYING IS UNLAWFUL PER SE

This Court has recognized and reaffirmed that Section 1 of the Sherman Act authorizes per se condemnation of a tying arrangement only if the plaintiff proves that the defendant has market power in the tying product market. See *Eastman Kodak Co.* v. *Image Technical Servs., Inc.*, 504 U.S. 451, 462 (1992); *Jefferson Parish Hosp. Dist. No. 2* v. *Hyde*, 466 U.S. 2, 12-18 (1984). That principle should apply without regard to whether the defendant holds a patent for the tying product. There is neither a theoretical nor an empirical basis for presuming that sellers of patented products have market power within the meaning of the Sherman Act. The presumption is inconsistent with this Court's decisions and would undermine the procompetitive policies of the antitrust laws.[3]

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[3] This case concerns only a patented product. But there is also no basis for the court of appeals' suggestion (Pet. App. 9a) that the presumption applies when the defendant holds a copyright in the tying product. There is even less reason to extend the presumption to copyrighted products because the protection afforded by a copyright (which extends only to the individual expression of an idea and not to the idea itself) is more circumscribed and because very few copyrighted works, as a theoretical or practical matter, could conceivably possess market power. See William M. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law* 296 (2003); 1 Herbert Hovenkamp et al., *IP and Antitrust* § 4.2, at 4-9 (2002). At the same time, the absurdity of inferring market power from the intellectual property right to prevent copying in the copyright context only underscores that those are two distinct concepts that should not be confounded in the patent context.

A. Section 1 Does Not Impose A Per Se Prohibition On Tying Arrangements In The Absence Of Market Power In The Tying Product Market

"Although the Sherman Act, by its terms, prohibits every agreement 'in restraint of trade,' this Court has long recognized that Congress intended to outlaw only unreasonable restraints." *State Oil Co.* v. *Khan*, 522 U.S. 3, 10 (1997). Nevertheless, some types of restraints have "such predictable and pernicious anticompetitive effect, and such limited potential for procompetitive benefit," *ibid.*, that they are deemed unreasonable as a matter of law and "therefore illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use." *Northern Pac. Ry.* v. *United States*, 356 U.S. 1, 5 (1958).

Per se rules are "appropriate only when they relate to conduct that is manifestly anticompetitive." *Continental T.V., Inc.* v. *GTE Sylvania Inc.*, 433 U.S. 36, 49-50 (1977). Some agreements, such as horizontal price-fixing, bid-rigging, and market allocation, are always per se unlawful. *E.g.*, *NCAA* v. *Board of Regents of the Univ. of Okla.*, 468 U.S. 85, 100 & n.21 (1984); *Addyston Pipe & Steel Co.* v. *United States*, 175 U.S. 211 (1899). But, as the Court emphasized in *Jefferson Parish*, "not every refusal to sell two products separately can be said to restrain competition." 466 U.S. at 11. To the contrary, "[b]uyers often find package sales attractive; a seller's decision to offer such packages can merely be an attempt to compete effectively—conduct that is entirely consistent with the Sherman Act." *Id.* at 12.

Accordingly, this Court's decisions restrict per se condemnation of tying arrangements to those restraints that have a "substantial potential for impact on competition" in an economically relevant market for the tied product, *Jefferson Parish*, 466 U.S. at 16. Arrangements that merely impose assertedly unwelcome terms on purchasers of the tying product are not per se illegal. The seller must have "the degree or the kind of market power" that enables him to deny purchasers of the tying product the ability to choose freely among suppliers of the tied product, *id.* at 17-18, and thereby "impair competition on the merits" in the market for the tied product and harm consumer welfare. *Id.* at 14. This "per se rule against tying" has been recognized by courts and scholars as distinct from the per se rule applied to naked horizontal restraints. See 9 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 1730, at 351 (2d ed. 2004) ("The per se rule against tying is a peculiar one that differs dramatically from the usual per se rule against, for example, horizontal price fixing."); *NCAA* v. *Board of Regents of the Univ. of Okla.*, 468 U.S. at 104 n.26.[4]

B. Possession Of A Patent On The Tying Product Does Not Establish Market Power

1. The Court's decision in *Jefferson Parish* indicates that the market power necessary to support a per se tying claim exists when "prices can be raised above the levels that would be charged in a competitive market." 466 U.S. at 27 n.46. It is certainly possible that a patent holder could possess market power sufficient to support a per se tying claim, and antitrust liability may be appropriate if a plaintiff provides evidence sufficient to support such a conclusion and to establish the other elements of the claim. It is scarcely "predictable" (*State Oil Co.*, 522 U.S. at 10) or "manifest[]" (*Continental T.V., Inc.*,

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[4] Market power is a necessary, but not a sufficient condition for per se condemnation. See *Eastman Kodak*, 504 U.S. at 464. The tying arrangement also must involve economically distinct products. See *Jefferson Parish*, 466 U.S. at 21-22. And the arrangement must foreclose "a substantial volume of commerce" to rival suppliers of the tied product, because otherwise "the resultant impact on competition would not be sufficient to warrant the concern of antitrust law." *Id.* at 16.

433 U.S. at 49-50), however, that patentees necessarily possess market power. To the contrary, there is a broad consensus in the antitrust community that "there is no economic basis for inferring any amount of market power from the mere fact that the defendant holds a valid patent, copyright, trademark, or other intellectual property right." 10 *Antitrust Law* ¶ 1737a, at 79. As Professors Hovenkamp, Janis, and Lemley explain, a "patent grant creates an antitrust 'monopoly' only if it succeeds in giving * * * the exclusive right to make something for which there are not adequate market alternatives, and for which consumers would be willing to pay a monopoly price." 1 Herbert Hovenkamp et al., *IP and Antitrust* § 4.2, at 4-9 (2002).[5]

A presumption that a patent holder possesses market power sufficient to impair competition in the tied product market is unsound because it blurs the distinction between the legal right, based in intellectual property law, to exclude a copyist's infringing product and the economic concept of market power. "Neither ownership of [a] property right nor the power to exclude conveys monopoly power unless the property right in question dominates a properly defined relevant market. The great majority of patents do not." 3 *Antitrust Law* ¶ 704a, at 159 (2d ed. 2002). See also 10 *Antitrust Law* ¶ 1733b, at 15 (to "equat[e] the statutory 'patent monopoly' with substantial market power" is "careless[]"); Edmund

[5] Accord J. Dianne Brinson, *Proof of Economic Power in a Sherman Act Tying Arrangement Case: Should Economic Power Be Presumed When the Tying Product Is Patented or Copyrighted?*, 48 La. L. Rev. 3 (1987); Russell Lombardy, *The Myth of Market Power: Why Market Power Should Not Be Presumed When Applying Antitrust Principles to the Analysis of Tying Arrangements Involving Intellectual Property*, 8 St. Thomas L. Rev. 449 (1996); William Montgomery, *The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements*, 85 Colum. L. Rev. 1140 (1985).

W. Kitch, *Elementary and Persistent Errors in the Economic Analysis of Intellectual Property*, 53 Vand. L. Rev. 1727, 1729-1731 (2000) (presumption that intellectual property rights are always associated with market power is an "elementary" error).

A market participant's possession of a patent right, and the consequent statutory right to exclude infringing products from the marketplace, cannot give the participant market power if—as is usually the case—there are noninfringing alternatives to the patented product that qualify, in the economic sense, as good substitutes. See *Brown Shoe Co.* v. *United States*, 370 U.S. 294, 325 (1962) (boundaries of product market determined by "interchangeability of use or the cross-elasticity of demand between the product itself and substitutes for it"); *NCAA*, 468 U.S. at 111 ("The District Court employed the correct test for determining whether college football broadcasts constitute a separate market—whether there are other products that are reasonably substitutable for televised NCAA football games.").[6]

[6] There is no merit to the suggestion (Br. in Opp. 11) that, because "a patent prevents a competitor from either making an identical patented product, or from making an equivalent product * * *, a patent, in and of itself, provides the power to preclude direct head to head competition in the patented product, or its equivalents." The patent law's doctrine of equivalents has no bearing on the economic concept of substitutability because it only "allows the patentee to claim those insubstantial alterations that were not captured in drafting the original patent claim but which could be created through trivial changes." *Festo Corp.* v. *Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 733 (2002). A product need not be substantially identical, as the doctrine of equivalents requires, to function as an economic substitute for a patented product and be part of the same market for antitrust purposes. *United States* v. *Continental Can Co.*, 378 U.S. 441, 449-450 (1964). For example, a traditional wooden pencil would not infringe a patent claiming a mechanical pencil, but both could be included in a "pencil" or "manual writing instrument" market.

A patented product, no matter how novel, unique, or distinct for purposes of patent law, may well face competition from other products that consumers would substitute for the patented invention. Indeed, many patented articles are not commercially viable at all "because the product has little use or because the patentee's product differs too little from [more preferred] rival versions." 10 *Antitrust Law* ¶ 1733b, at 14.[7] To illustrate, the Patent and Trademark Office has issued scores of patents for items such as bottle openers, toothbrushes, and paper clips. See United States Patent and Trademark Office Home Page (visited Aug. 2, 2005) <http://www.uspto. gov/patft/ index.html> (searchable Patent Data Base). It would be implausible to presume that the owner of such a patent possesses market power merely by virtue of the patent.[8]

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[7] See generally F.M. Scherer, *The Innovation Lottery*, in *Expanding the Boundaries of Intellectual Property* 15 (Rochelle Dreyfuss et al. eds., 2001) (data on the size of rewards shows that "the big prizes from innovation are thrown to a small minority of winners, while the majority of innovative efforts confer only modest rewards"); John R. Allison et al., *Valuable Patents*, 92 Geo. L.J. 435, 437 (2004) ("Many patents are not worth enforcing—either because the inventions they cover turn out to be worthless, or because even if the invention has economic value the patent does not.") (footnotes omitted); Mark Schankerman, *How Valuable Is Patent Protection? Estimates by Technology Field*, 29 RAND J. Econ. 77, 79, 93 (1998) (finding distribution of patent value is skewed and "[m]ost patents have very little private value").

[8] See Herbert Hovenkamp, *Federal Antitrust Policy* 406 (3d ed. 2005) ("The economic case for 'presuming' sufficient market power to coerce consumer acceptance of an unwanted tied product simply because the tying product is patented, copyrighted, or trademarked is very weak."); Richard A. Posner, *Antitrust Law* 197 (2d ed. 2001) ("a patent is a poor proxy for monopoly power"); Richard C. Levin et al., *Appropriating the Returns from Industrial Research and Development*, 1987 Brookings Papers on Econ. Activity: Microeconomics 783, 817 (instead of presuming the existence of market power in a patent, "court[s] should inquire into the actual competitive significance of intellectual property protection in the particular market").

2. As a matter of longstanding antitrust policy, both the Department of Justice and the Federal Trade Commission have rejected the presumption that patents confer market power for the simple reason that the presumption is so demonstrably unsound. Over a decade ago, for example, the Department and the Commission jointly issued explicit guidance explaining that they do "not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner" because, "[a]lthough [a patent] right confers the power to exclude with respect to the *specific* product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power." *Antitrust Guidelines for the Licensing of Intellectual Property*, 4 Trade Reg. Rep. (CCH) ¶ 13,132, § 2.2 (1995) (*1995 Antitrust-IP Licensing Guidelines*). The government has consistently adhered to that enforcement position for more than twenty years.[9] Instead of presuming market power, the antitrust agencies de-

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[9] See, *e.g.*, J. Paul McGrath, Assistant Attorney Gen., Antitrust Div., DOJ, *Patent Licensing: A Fresh Look at Antitrust Principles in a Changing Economic Environment* 12 (Apr. 5, 1984) ("[The market power] presumption reflects the traditional, though ill-conceived, notion that the patent laws create 'monopolies' that are inherently in conflict with the competition policy underlying the antitrust laws. The truth is, however, that the exclusive rights to patents rarely give their owners anything approaching a monopoly."); *Antitrust Enforcement Guidelines for International Operations—1988*, 4 Trade Reg. Rep. (CCH) ¶ 13,109, § 3.6 (1995) ("[I]ntellectual property—even a patent—does not necessarily confer a monopoly or market power in any relevant market"); *Intellectual Property Antitrust Protection Act of 1995: Hearing on H.R. 2674 Before the House Comm. on the Judiciary*, 104th Cong., 2d Sess. 11 (1996) (testimony of Deputy Assistant Attorney General Joel Klein); Mary L. Azcuenaga, Commissioner, FTC, *The Intersection of Antitrust and Intellectual Property: Adaptations, Aphorisms and Advancing the Debate* (Jan. 25, 1996) <http://www.ftc.gov/speeches/azcuenaga/alis.htm>; Thomas B. Leary, Commissioner, FTC, *The Patent-Antitrust Interface* (May 3, 2001) <http://www. ftc.gov/speeches/leary/ ipspeech.htm>.

termine whether a patent owner possesses market power by applying the same analysis that they apply to any other valuable asset, which requires the consideration of possible substitutes that might allow consumers to turn to other suppliers of a similar product or process. See *id.* § 2.1.[10]

Congress also has rejected, in the context of patent misuse, a presumption that a patent confers market power. As the district court explained:

> Four years after the Supreme Court decided *Jefferson Parish*, Congress passed the Patent Misuse Reform Act of 1988, which provides that a tying arrangement does not constitute patent misuse in the absence of market power. 35 U.S.C. § 271(d)(5). If, as is clear, a patent is insufficient to establish market power in tying cases when considering the "patent misuse defense," it would be anomalous for the same patent to be sufficient to establish market power in the same case for purposes of a counterclaim under the Sherman Act.

Pet. App. 36a n.11. See 10 *Antitrust Law* ¶ 1737c, at 82-83; see also *Schlafly* v. *Caro-Kann Corp.*, 1998-1 Trade Cas. (CCH) ¶ 72,138 (Fed. Cir. 1998) (applying 35 U.S.C. 271(d)(5) to hold that, because patentee was not shown to have market power within a relevant market, licensing restrictions did not violate Section 1 of the Sherman Act).[11]

There is no merit to respondent's suggestion (Br. in Opp. 8) that a presumption of market power should operate, not in the "the entire world of patents," but rather when a patent is actually licensed and involved in tying. That argument overlooks the undeniable reality that, even when a patented product is commercially viable, it is still often subject to competition from non-infringing substitutes.[12] The fact that courts do

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[10] A number of foreign antitrust agencies have reached the same conclusion. See Commonwealth of Australia, *Application of Trade Practices Act to Intellectual Property, Background Paper* § 4.6 (1991) <http://www.accc.gov.au/content/index.phtml/itemId/325546> ("[T]o determine the degree of power a corporation has in a market, one must first define the relevant market. * * * The existence of intellectual property rights enjoyed by a corporation is irrelevant to this market definition. The market is defined by the area of close competition between different sources of particular products and their substitutes."); Competition Bureau, Government of Canada, *Intellectual Property Enforcement Guidelines* § 4.1 (2000) <http://www.strategis.ic.gc.ca/pics/ct/ipege.pdf> ("[T]he right to exclude others from using the product or process does not necessarily grant the owner market power."); European Comm'n Notice, *Guidelines on the Application of Article 81 of the EC Treaty to Technology Transfer Agreements*, 2004 O.J. (C 101/2) ¶ 9 <http://www.europa.eu.int/eur-lex/pri/en/oj/dat/2004/c_101/c_10120040427en00020042.pdf> ("There is no presumption that intellectual property rights and license agreements as such give rise to competition concerns."); Taiwan Fair Trade Comm'n, *Rules for Review of Technology Licensing Arrangement Cases*, Rule 3 <http://www.ftc.gov.tw/indexEnglish.html> ("[T]he Commission does not presume that a licensor, as a result of owning a patent or know-how, has market power within a relevant market.").

[11] The court of appeals noted Congress's enactment of the Patent Misuse Reform Act, Pet. App. 10a n.7, but it suggested that an inference could be drawn from Congress's failure to adopt proposed statutory language for "affirmative patent tying claims" that Congress expected courts to apply a presumption in those cases. That inference is unsound. See *State Oil Co.*, 522 U.S. at 19 ("[i]n the context of this case, we infer little meaning from the fact that Congress has not reacted legislatively to [a precedent that the Court is reconsidering]"); *Alexander* v. *Sandoval*, 532 U.S. 275, 292 (2001) ("[i]t is impossible to assert with any degree of assurance that congressional failure to act represents affirmative congressional approval of the Court's statutory interpretation") (citations and internal quotation marks omitted).

[12] Judicial decisions in the patent arena have recognized the importance of non-infringing substitutes. For example, if a patent holder brings a successful infringement action against a competing product, a factor in assessing damages is the extent to which the infringer's sales were drawn from non-infringing substitutes rather than the patented product. See *State Indus., Inc.* v. *Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1577-1578 (Fed. Cir. 1989), cert. denied, 493 U.S. 1022 (1990); *BIC Leisure Prods., Inc.* v. *Windsurfing Int'l, Inc.*, 1 F.3d 1214,

not subject all tying arrangements to a per se rule underscores that tying arrangements are often consistent with robust competition. Even when the patented product is part of a tying arrangement, therefore, there is no basis for presuming market power. The courts do not presume market power from the mere existence of a tie, and the fact that the tying product is patented should not alter that conclusion. A court thus cannot avoid the necessity of making the same market inquiry that it would make in the case of a non-patented product.

There is also no merit to the contention that courts should presume that patents confer market power because economically rational companies would not invest in research and development or in obtaining patents unless the result would be significant economic power in the marketplace. See Br. in Opp. 7-8. That argument falsely equates the *possibility* of obtaining market share and perhaps even market power, which provides an incentive to innovate, with actual *success* in acquiring market power. See *IP and Antitrust* § 4.2, at 4-9 ("in assessing whether a granted intellectual property right creates power, we distinguish expectations from the situation that exists after the right has been conferred"). The potential for profit spurs innovation and investment, notwithstanding that many innovators and investors do not ultimately achieve the profits they seek, let alone market power.[13]

1218-1219 (Fed. Cir. 1993); *Panduit Corp.* v. *Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978).

[13] The presumption of market power is particularly inappropriate because it would effectively expand the scope of the per se rule respecting tying arrangements when many authorities have urged the curtailment of that rule. In *Jefferson Parish*, four Justices would have eliminated the per se rule in all tying cases in favor of the rule of reason. 466 U.S. at 33-35 (O'Connor, J., concurring). See 9 *Antitrust Law* ¶ 1730b, at 356 ("We therefore agree with the concurring Justices in *Jefferson Parish* that the special per se rule em-

3. "Legal presumptions that rest on formalistic distinctions rather than actual market realities are generally disfavored in antitrust law. * * * In determining the existence of market power * * * this Court has examined closely the economic reality of the market at issue." *Eastman Kodak*, 504 U.S. at 466-467. The issue of market power should not be determined by the formalism of whether the tying product is patented, but by the market reality of whether the tying product has generated demand that cannot be satisfied through substitution of rival products. See *United States Steel Corp.* v. *Fortner Enters.*, 429 U.S. 610, 619 (1977) (*Fortner II*). A patented product may possess uniqueness, and that uniqueness may contribute to establishing market power, but in many cases it will not, and a general legal presumption that patented products confer market power is therefore not justified.

The better approach is illustrated by a line of antitrust tying cases in which the tying product is land. Each parcel of land has a unique location, but "uniqueness of location is not in itself adequate to establish market power[;] * * * there must be other evidence showing that the location lends the defendant a competitive advantage others cannot meet." *Baxley-DeLamar Monuments, Inc.* v. *American Cemetery Ass'n*, 938 F.2d 846, 852 (8th Cir. 1991). There is no presumption that, because the tying product is land and "all land is unique," the defendant must therefore have market power. *Id.* at 851; see *Northern Pac. Ry.*, 356 U.S. at 7 (market power shown by massive land holdings "strategically located in

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ployed in tying has most of the disadvantages of the standard rule of reason without the advantages."). Since *Jefferson Parish*, the D.C. Circuit has declined to apply the per se rule to tying claims in software markets because of the "undue risks of error and of deterring welfare enhancing innovation." *United States* v. *Microsoft Corp.*, 253 F.3d 34, 89-90 (D.C. Cir.) (en banc), cert. denied, 534 U.S. 952 (2001).

checkerboard fashion amid private holdings and within economic distance of transportation facilities").[14]

C. This Court's Decisions Do Not Require The Creation Or Preservation Of A Presumption That Patents Confer Market Power

This Court's tying jurisprudence has evolved substantially over the years as the Court has brought increasingly rigorous economic analysis to bear on the antitrust implications of tying arrangements. The Court's earliest decisions "were extremely hostile to [tying arrangements], whether the case involved intellectual property or other tying products." Pet. App. 5a. The Court analyzed the legality of such arrangements without inquiry into whether the defendant used the tie to exploit any market power that it may have had in the market for the tying product. See *id.* at 5a-6a. But particularly since its decision in *Fortner II*, the Court has emphasized the need to inquire into the defendant's "'market power' in the market for the tying product." Pet. App. 6a. See, *e.g.*, *Eastman Kodak*, 504 U.S. at 462 (tying "violates § 1 of the Sherman Act if the seller has 'appreciable economic power' in the tying product market"); see also 10 *Antitrust Law* ¶ 1733a, at 13 (The requirement of market power "was not taken seriously until the late 1970's. Beginning with *Fortner II* and continuing in *Jefferson Parish* and *Kodak*, the Supreme Court has insisted that the plaintiff prove such power." (footnotes omitted)).

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[14] See *Breaux Bros. Farms, Inc.* v. *Teche Sugar Co.*, 21 F.3d 83, 86-87 (5th Cir.) (control of 17.5% of sugar cane land in relevant market is insufficient to show market power), cert. denied, 513 U.S. 963 (1994); *Baxley-DeLamar Monuments*, 938 F.2d at 851 ("the mere fact that the tying product is real estate does not convey market power"); *Monument Builders of Greater Kan. City, Inc.* v. *American Cemetery Ass'n*, 891 F.2d 1473, 1482-1483 (10th Cir. 1989) (finding allegations of high market share and uniqueness of cemetery plots sufficient to state a tying claim).

Despite the evolution in the Court's tying jurisprudence, the court of appeals looked back to the Court's 1947 decision in *International Salt* and its 1962 decision in *Loew's* for guidance in analyzing tying arrangements involving a patented tying product. The court of appeals understood those cases to create a presumption that patents confer market power. See Pet. App. 8a-10a. The court's understanding is highly questionable, because it is far from clear that those cases support "any presumption of market power." *Jefferson Parish*, 466 U.S. at 37 n.7 (O'Connor, J., concurring). An examination of those cases and their underpinnings reveals that they do not establish a controlling rule that patents confer market power, and they accordingly do not have "direct application" to the precise issue presented here. Pet. App. 14a (quoting *Rodriguez de Quijas* v. *Shearson/American Express, Inc.*, 490 U.S. 477, 484 (1989)).[15]

The Court's decision in *International Salt* addressed whether the defendant had violated Section 1 by requiring lessees of its patented salt machines to use its salt. See 332 U.S. at 393. The opinion for the Court does not state that patents are presumed to confer market power, and indeed it contains no discussion whatsoever regarding the defendant's

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[15] Indeed, the court of appeals' conclusion in this case is difficult to square with its own past decisions. Panels of the Federal Circuit, including the panel in this case, have concluded, in the context of addressing claims under Section 2 of the Sherman Act, that a patent does not confer market power for purposes of the antitrust laws. See Pet. App. 17a-18a; *Abbott Labs.* v. *Brennan*, 952 F.2d 1346, 1354 (Fed. Cir. 1991) ("A patent does not of itself establish a presumption of market power in the antitrust sense."), cert. denied, 505 U.S. 1205 (1992); *C.R. Bard, Inc.* v. *M3 Sys., Inc.*, 157 F.3d 1340, 1368 (Fed. Cir. 1998) ("It is not presumed that the patent-based right to exclude necessarily establishes market power in antitrust terms."), cert. denied, 526 U.S. 1130 (1999); *American Hoist & Derrick Co.* v. *Sowa & Sons, Inc.*, 725 F.2d 1350, 1367 (Fed. Cir.) ("patent rights are not *legal monopolies* in the antitrust sense of that word"), cert. denied, 469 U.S. 821 (1984).

market power (or lack thereof) in the salt machine market. See *id.* at 394-398. The Court's failure to discuss that factor suggests that the Court, at that time, considered the inquiry unnecessary to establish a Section 1 violation; it certainly does not suggest that the Court adopted *sub silentio* a rule that market power must generally be shown but is to be presumed from the existence of a patent. See 10 *Antitrust Law* ¶ 1733d, at 18-19.

The Court later confirmed in *Northern Pacific*, *supra*, that its decision in *International Salt* did not depend on whether the defendant had patented its machines. *Northern Pacific* involved a Section 1 challenge to a railroad's tying agreements in which it sold or leased land on condition that the recipients agree to use only the railroad's shipping facilities. See 356 U.S. at 7. The Court cited *International Salt* in invalidating the tying arrangements and rejected the railroad's argument that the latter decision was distinguishable because it involved a patented product. Stating that "we do not believe this distinction has, or should have, any significance," *id.* at 9, the Court explained that *International Salt* "placed no reliance on the fact that a patent was involved nor did it give the slightest intimation that the outcome would have been any different if that had not been the case. If anything, the Court held the challenged tying arrangements unlawful *despite* the fact that the tying item was patented, not because of it." *Ibid.* *Northern Pacific* thus refutes the court of appeals' view that *International Salt* adopted a presumption that patents confer market power.

The Court's decision in *Northern Pacific* also explained cogently why the existence of a patent does not suffice to establish market power. The Court reasoned that

> it is common knowledge that a patent does not always confer a monopoly over a particular commodity. Often the patent is limited to a unique form or improvement of the

> product and the economic power resulting from the patent privilege is slight. As a matter of fact the defendant in *International Salt* offered to prove that competitive salt machines were readily available which were satisfactory substitutes for its machines (a fact the Government did not controvert), but the Court regarded such proof as irrelevant.

356 U.S. at 10 n.8.

To be sure, the Court's subsequent decision in *Loew's*, which involved the block-booking of copyrighted films, does state that there is a presumption of market power for patented or copyrighted tying products. 371 U.S. at 45. But the decision does not convincingly explain the economic rationale for that observation (which was, in any event, dictum, at least as applied to patents). The Court cited *International Salt*, but it did not identify anything in that decision that called for recognition of such a presumption, nor did it attempt to reconcile its analysis with the passage from *Northern Pacific*, set out above, which expressed the understanding that a patent typically is *not* associated with market power. See *id.* at 45-46.[16]

The *Loew's* Court instead stated that the presumption it had identified "grew out of a long line of patent cases" applying the theory of patent misuse to bar patentees who employed tying arrangements from enforcing their patents. 371 U.S. at 46 (citing, *inter alia*, *Mercoid Corp.* v. *Mid-Continent*

[16] *Loew's* also cited *United States* v. *Paramount Pictures, Inc.*, 334 U.S. 131 (1948), which also involved the block-booking of copyrighted films. See 371 U.S. at 45-46. Like *International Salt*, however, *Paramount* did not announce or apply a legal presumption respecting market power and did not even discuss whether the defendant had market power in the market for the tying product. See 334 U.S. at 156-159. Instead, *Paramount*, like *Loew's*, appeared to rely on principles drawn from the patent misuse doctrine. See *id.* at 157-158. See also pp. 21-22, *infra*.

Inv. Co., 320 U.S. 661 (1944)). The Court explained that those "cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products." *Ibid.*; see generally *id.* at 46-48. Thus, the *Loew's* Court's reference to a presumption of market power was a reflection of the then-existing view that a patent grant was generally inconsistent with all forms of tying arrangements, regardless of whether the patent actually conferred market power. See *United States* v. *Paramount Pictures, Inc.*, 334 U.S. 131, 157-158 (1948).

That limited view of the rights conferred by a patent is anachronistic under current law. As discussed above, Congress has legislatively broadened the scope of those rights by making clear that tying arrangements involving patented products do not constitute patent misuse—and thus do not prevent enforcement of the patent—in the absence of market power. 35 U.S.C. 271(d)(5). Whatever the merit of the *Loew's* analysis under prior law, therefore, that analysis leads to a different result under modern patent law, because the patent-misuse rationale can no longer justify any failure to require actual proof of market power.

The Court's more recent tying decisions in *Eastman Kodak*, *Jefferson Parish*, and *Fortner II*, which emphasize the crucial need to consider market power when analyzing tying arrangements, have further eclipsed the Court's earlier decisions in *Loew's* and *International Salt*, which predate the application of a more rigorous economic inquiry into antitrust issues. The Court's recent decisions expressly require that "any inquiry into the validity of a tying arrangement must focus on the market or markets in which the two products are sold." *Jefferson Parish*, 466 U.S. at 18. Thus, the existence of market power, "defined as 'the ability of a single seller to raise price and restrict output,'" is now a "necessary feature of an illegal tying arrangement." *Eastman Kodak*, 504 U.S.

at 464 (quoting *Fortner Enters.* v. *United States Steel Corp.* 394 U.S. 495 (1969)). That instruction leaves no room "to infer power from a patent on the tying product," 10 *Antitrust Law* ¶ 1737a, at 82, and strongly suggests "that the power needed to trigger per se illegality cannot be inferred from a patent alone." *Id.* ¶ 1737a, at 80; see *id.* ¶ 1737c, at 82 ("[I]f *Salt* was essentially indifferent to power over the tying product, it has been overruled by the legal rule adopted in *Fortner II* and *Jefferson Parish*.").

The court of appeals observed (Pet. App. 9a) that *Jefferson Parish* and *Fortner II* contain dicta arguably supporting a market-power presumption for patented or copyrighted products. But such *dicta* plainly have no controlling force in this Court because neither case involved a patented or copyrighted tying product and "repeating dicta does not infuse it with life." *Metropolitan Stevedore Co.* v. *Rambo*, 515 U.S. 291, 300 (1995). See *Lingle* v. *Chevron U.S.A. Inc.*, 125 S. Ct. 2074 (2005). Indeed, the Court's dictum in *Jefferson Parish* prompted immediate criticism from four Members of the Court. The majority observed that, "if the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." 466 U.S. at 16. But Justice O'Connor, joined by three other concurring Justices, focused on the precise question in more detail:

> A common misconception has been that a patent or copyright, a high market share, or a unique product that competitors are not able to offer suffices to demonstrate market power. While each of these three factors might help to give market power to a seller, it is also possible that a seller in these situations will have no market power: for example, a patent holder has no market power in any

relevant sense if there are close substitutes for the patented product.

Id. at 37 n.7. The Court's *Jefferson Parish* dictum is most reasonably understood as "merely describing pre-*Fortner II* cases without reexamining them." 10 *Antitrust Law* ¶ 1733e2, at 27. It recognizes that patent rights are relevant in assessing market power, but it provides no basis for an exception to the Court's express direction that courts focus their inquiry into the validity of a tying arrangement "on the market or markets in which the two products are sold." *Jefferson Parish*, 466 U.S. at 18.[17]

Ultimately, if the Court concludes that its decisions in *Eastman Kodak*, *Jefferson Parish*, and *Fortner II*, together with Congress's requirement that market power be proved in order to establish patent misuse by tying, have merely undermined, but not eradicated, the notion that the mere existence of a patent presumptively establishes market power, then the Court should take appropriate action to finish the process. While this Court approaches reconsideration of its decisions "with the utmost caution," *State Oil Co.*, 522 U.S. at 20, "[i]n

[17] The Court's dictum in *Fortner II* is even less consequential. That Court noted that "the statutory grant of a patent monopoly in *International Salt* * * * represented tying products that the Court regarded as sufficiently unique to give rise to a presumption of economic power," 429 U.S. at 619. But that language does not suggest that *International Salt* treated the products as sufficiently unique to give rise to market power *because* they were patented or that all patented products would be sufficiently unique. *Fortner II* also emphasized, repeatedly, that the presence of a patent or copyright may sometimes explain why a product qualifies as unique and that, to show market power, the product must be sufficiently unique to "significantly differentiate[ ]" it from competitors' products. *Id.* at 620-622. Because *Fortner II* emphasized the need to show power "to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market," *id.* at 620, that decision more generally supports the requirement of a case-specific analysis of actual market power.

the area of antitrust law, there is a competing interest, well represented in this Court's decisions, in recognizing and adapting to changed circumstances and the lessons of accumulated experience. * * * Accordingly, th[e] Court has reconsidered its decisions construing the Sherman Act when the theoretical underpinnings of those decisions are called into serious question." *Id.* at 20-21 (overruling *Albrecht* v. *Herald Co.*, 390 U.S. 145 (1968)). See *Copperweld Corp.* v. *Independence Tube Corp.*, 467 U.S. 752 (1984) (overruling *Kiefer-Stewart Co.* v. *Joseph E. Seagram & Sons, Inc.*, 340 U.S. 211 (1951)); *Continental T.V., Inc.* v. *GTE Sylvania Inc.*, *supra* (overruling *United States* v. *Arnold, Schwinn & Co.*, 388 U.S. 365 (1967)). Accordingly, the Court should squarely reject the presumption that patents confer market power, overruling, to the extent necessary, any contrary suggestion in *International Salt* and *Loew's*.

D. A Presumption That Patents Confer Market Power Would Conflict With The Procompetitive Policies Of The Antitrust Laws

The court of appeals' decision sets out an obviously anomalous rule. It directs district courts to assess market power in Section 1 patent tying cases under an artificial presumption inapplicable to tying claims involving non-patented products or to other types of antitrust claims involving patented products. Because that presumption lacks a sound foundation in fundamental principles of antitrust law and policy, it should be discarded.

1. Market power need not be proved to establish some per se violations of the antitrust laws, such as horizontal price fixing, where the conduct at issue is deemed unreasonable as a matter of law without regard to the market power of the participants. See *Northern Pac. Ry.*, 356 U.S. at 5. If practices have no countervailing benefits and are unlikely to suc-

ceed or even be attempted in the absence of market power, such a rule makes sense. But most antitrust claims, including allegations of unlawful tying arrangements, involve practices that may be attempted and make economic sense in the absence of market power and thus depend critically on an assessment of market power. In those areas of antitrust law where market power matters, the Court has created no legal shortcut, comparable to the presumption in this case, for showing that the defendant has sufficient market power to satisfy the required element of the antitrust violation.[18]

The Court has recognized that there are different ways of proving market power. A court may consider direct evidence of a defendant's ability to raise prices to determine whether the defendant has the requisite economic power. See *Eastman Kodak*, 504 U.S. at 477. Or a court might look to evidence of market share in properly defined markets, taking into account evidence of barriers to market entry and other factors. See, *e.g.*, *United States* v. *Microsoft Corp.*, 253 F.3d 34, 54-56 (D.C. Cir.) (en banc), cert. denied, 534 U.S. 952 (2001). Patents (and other intellectual property rights) sometimes are important, and they may be relevant in determining whether entry would be unlikely to prevent a significant exercise of market power. See *Fortner Enters.* v. *United States Steel Corp.*, 394 U.S. 495, 505 n.2 (1969) (*Fortner I*). But it is also commonly the case that, notwithstanding the existence of intellectual property rights, the evidence establishes that

[18] As the court of appeals acknowledged, the market power presumption would be inapplicable to cases involving patented products brought under Section 2 of the Sherman Act. Pet. App. 17a; *Walker Process Equip., Inc.* v. *Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965) (requiring independent proof of market power despite existence of a patent). Thus, the creation or retention of the presumption could place courts in the position, as in this case, of reaching inconsistent conclusions in the same case respecting a seller's market power in a single market.

existing and potential competition is ample to prevent a defendant from exercising significant market power. Accordingly, in every case in which a showing of market power is required, its existence must be considered in light of evidence relating to the particular markets at issue. The district court concluded that Independent failed to make an adequate showing of market power in this case. Pet. App. 49a.

2. Sound antitrust enforcement, public or private, does not benefit from reliance on a presumption of market power that lacks any foundation in economic reality. There is no reason to excuse plaintiffs who challenge tying arrangements involving patented articles from making the same showing of market power required of plaintiffs who challenge other tying arrangements or who raise other antitrust claims involving patented products. Indeed, because plaintiffs often join multiple antitrust claims involving issues of market power in one civil action, a court frequently must consider evidence of market power to resolve the case, irrespective of any special presumption applicable only to Section 1 tying claims. See Pet. 54a-56a.

Recognition of the presumption, however, might well encourage meritless claims and enable plaintiffs to reach the jury and prevail at trial without having to show anything more (with respect to market power) than a patent on the tying product. First, by shifting to defendants the burden of disproving market power, the presumption increases the cost of defending against meritless suits and may, therefore, lead defendants to settle such suits. Second, even if the defendant offers evidence of its lack of market power, the presumption may enable plaintiffs to survive summary judgment and precipitate the need for a jury trial. In this case, the court of appeals did not precisely explain what procedural consequences would follow from a defendant's submission of evidence sufficient to rebut the presumption. In holding that

petitioners had not "create[d] a genuine issue of material fact on the issue" of market power, however, the court seemed to imply that rebuttal evidence on remand would send the issue to the jury. See Pet. App. 17a.[19]

3. A presumption of market power that lacks any basis in economic reality may have a negative effect on efficiency and innovation incentives. Perceived rewards from the efficient exploitation of intellectual property can induce intellectual property owners to invest in research and development, bringing new products to consumers.[20] But conversely, a market power presumption that undermines perceived rewards may constitute a drag on innovation or, at a minimum, cause firms with patents to forgo potentially efficient tying arrangements.[21]

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[19] The courts have not uniformly decided whether a defendant who rebuts an evidentiary presumption becomes entitled to a trial or to entry of judgment as a matter of law. See 2 John W. Strong, *McCormick on Evidence* § 344, at 461 (4th ed. 1992) ("The problem of the effect of a presumption when met by proof rebutting the presumed fact has literally plagued the courts and legal scholars."). "[D]ifferent presumptions will continue to be viewed as having different procedural effects." *Id.* at 476.

[20] See, *e.g.*, *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 480 (1974) ("The patent laws * * * offe[r] a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development. The productive effort thereby fostered will have a positive effect on society through the introduction of new products and processes of manufacture into the economy."). See also, *e.g.*, *Mazer* v. *Stein*, 347 U.S. 201, 219 (1954) ("The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and useful Arts.'"); Joseph A. Schumpeter, *Capitalism, Socialism and Democracy* 73-74 (1942) ("[s]pectacular prizes * * * are thrown to a small minority of winners," encouraging individuals to "d[o] their utmost" to win "the big prizes before their eyes").

[21] See Scherer, *The Innovation Lottery* 20 ("To the extent that investments in technological and artistic creation are motivated by the longshot hope of a very large reward, intellectual property policies should sustain and reinforce that incentive system, not undermine it.").

As this Court has long understood, the use of legal presumptions, as well as other procedures to facilitate litigation, can have real-world effects on firm behavior and innovation.[22] The proposed market power presumption would predictably cause some intellectual property owners that do not possess market power to avoid tying, even in cases where the practice may be efficient. Reducing the patentee's options for efficient exploitation of its patent rights may, in turn, adversely impact the incentives to innovate. Moreover, it may deprive consumers of the benefits of efficiency-enhancing practices. See *1995 Antitrust-IP Licensing Guidelines* § 5.3 ("Although tying arrangements may result in anticompetitive effects, such arrangements can also result in significant efficiencies and procompetitive benefits.").[23]

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[22] See, *e.g.*, *Sony Corp. of America* v. *Universal City Studios, Inc.*, 464 U.S. 417, 439-441 (1984) (barring secondary liability based on a presumed intent to cause copyright infringement, noting the potential effect of that presumption on product innovation); *Markman* v. *Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996) (concluding that construction of patents by judges, rather than juries, promotes "the importance of uniformity in the treatment of a given patent" and, in turn, innovation); *Festo Corp.* v. *Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 739 (2002) (noting that "[f]undamental alterations in [the patent doctrine of equivalents and the rule of prosecution history estoppel] risk destroying the legitimate expectations of inventors in their property"); *Matsushita Elec. Indus. Co.* v. *Zenith Radio Corp.*, 475 U.S. 574, 593 (1986) (noting that the effect of allowing implausible inferences to survive summary judgment and require a jury trial "is often to deter procompetitive conduct").

[23] Package licenses and tie-ins can enhance consumer welfare in a variety of ways through, for example, economies of joint sales, quality assurance, protection of goodwill, and cheating on a cartel price. See Dennis W. Carlton & Jeffrey M. Perloff, *Modern Industrial Organization* 319-322 (4th ed. 2005). See also Marius Schwartz & Gregory J. Werden, *A Quality-Signaling Rationale for Aftermarket Tying*, 64 Antitrust L.J. 387 (1996); William F.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

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Baxter & Daniel P. Kessler, *The Law and Economics of Tying Arrangements: Lessons for the Competition Policy Treatment of Intellectual Property*, in *Competition Policy and Intellectual Property Rights in the Knowledge-Based Economy* 137, 142-143 (Robert D. Anderson & Nancy T. Gallini eds., 1998) (beneficial effect of tying as a "metering" device).

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IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.,
Petitioners,

v.

INDEPENDENT INK, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF FOR PETITIONERS

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REPLY BRIEF FOR PETITIONERS

The American Bar Association states in its amicus brief in support of certiorari that "[t]his case presents a legal dispute that is classically appropriate for resolution by this Court," pointing out the importance of the question presented regarding the presumption of market power in patent tying cases, that issue's clear presentation in this case, the division among the lower courts, the statements by a number of Justices questioning the market power presumption, and the urgent need for guidance to practitioners and courts. ABA Am. Br. 2-3. The nation's leading voluntary bar association of intellectual property lawyers agrees that the issue presented is one "of exceptional importance with widespread impact." American Intellectual Property Law Association ("AIPLA") Am. Br. 2. And intellectual property owners explain that "[i]f the decision below is left standing, it will create a roadblock to the efficient use of intellectual property." Pfizer Am. Br. 3; see also Intellectual Property Owners ("IPO") Am. Br. 12.

Respondent's brief in opposition is a mélange of ad hominem attacks and unsupported factual assertions that fails to rebut the arguments in the petition demonstrating why this Court should reconsider the market power presumption. The petition for a writ of certiorari should be granted.

1. Respondent asserts (Br. in Opp. 1-5) that *stare decisis* and subsequent congressional inaction each preclude reconsideration of the Court's decisions in *International Salt Co. v. United States*, 332 U.S. 392 (1947), and *United States v. Loew's, Inc.*, 371 U.S. 38 (1962). Respondent is wrong on both counts.

With respect to *stare decisis*, respondent completely ignores this Court's express determination that "the general presumption that legislative changes should be left to Congress has less force with respect to the Sherman Act in light

of the accepted view that Congress 'expected the courts to give shape to the statute's broad mandate by drawing on common-law tradition.'" *State Oil Co. v. Khan*, 522 U.S. 3, 20-21 (1997) (quoting *National Soc. of Prof'l Eng'rs v. United States*, 435 U.S. 679, 688 (1978)). That is why this Court has reconsidered and overruled decisions construing the Sherman Act on a number of prior occasions (Pet. 8) — another fact that respondent completely ignores.

Respondent next argues that the Court is precluded from reconsidering the market power presumption because the issue supposedly has been addressed by Congress. But Congress has not endorsed the presumption by, for example, codifying it or enacting legislation in reliance on the presumption's existence. Respondent's entire argument rests on Congress's failure to enact legislation. As this Court has previously explained, however, "it is impossible to assert with any degree of assurance that congressional failure to act represents affirmative congressional approval of the Court's statutory interpretation." *Alexander v. Sandoval*, 532 U.S. 275, 292 (2001) (citations and internal quotation marks omitted); see also *United States v. Craft*, 535 U.S. 274, 287 (2002) ("failed legislative proposals are 'a particularly dangerous ground on which to rest an interpretation of a prior statute,' reasoning that '[c]ongressional inaction lacks persuasive significance because several equally tenable inferences may be drawn from such inaction, including the inference that the existing legislation already incorporated the offered change'") (citations omitted).

Reliance on congressional inaction is particularly inappropriate in the antitrust context for the same reason that *stare decisis* applies with less force: Congress in the Sherman Act conferred upon the courts a mandate to evolve antitrust law in a common law fashion and a very clear expression of congressional intent therefore would be necessary to conclude that Congress has withdrawn that authority with respect to a particular issue. Respondent points to inconclusive legis-

lative consideration of the issue that falls far short of a congressional endorsement of the market power presumption.

Indeed, those legislative deliberations support the conclusion that Congress intended to leave the matter for correction by the courts. In testimony during a House Judiciary Committee hearing with respect to the 1995 legislation cited by respondent (Br. in Opp. 3), Assistant Attorney General Joel Klein agreed that the market power presumption should be eliminated (*Intellectual Property Antitrust Protection Act of 1995: Hearings on H.R. 2674 Before the Committee on the Judiciary, House of Representatives*, 104th Cong., 2d Sess. 13 (1996) ("*Hearings on 1995 Act*")), but recommended against legislative action for just this reason:

> The virtual unanimity of scholars on this point, the analysis contained in the DOJ/FTC Intellectual Property Guidelines, and the inexorable development and maturation of court decisions in this area of antitrust law, which all resolve the issue in accordance with the substance of this legislation [eliminating the market power presumption], bring into question whether legislative action is really necessary at this point. One of the great virtues of the antitrust laws is that they are general in nature. Adopting new antitrust legislation should be done only when the need for such legislation is great.

Id. at 16.

The 1995 proposal was stimulated in part by congressional concern about the continuing effect of the decision in *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985), which employed the market power presumption. Assistant Attorney General Klein advised the committee that "the law is at the point where, especially with our guidelines, the likelihood of seeing a recurrence of a *Digidyne*-type holding[] seems to me to be very small." *Hearings on 1995 Act* at 17. He stated that, "given the [Ninth Circuit's subsequent decision in *Mozart*

Co. v. Mercedes-Benz of North America, 833 F.2d 1342 (9th Cir. 1987), *cert. denied*, 488 U.S. 870 (1988)], the uniform body of law review articles and case law subsequent to *Digidyne*, and now the Department of Justice and Federal Trade Commission Guidelines, that *Digidyne* is a relic, and, therefore, * * * the costs of this kind of relatively small change in the antitrust law outweigh the benefits." *Hearings on 1995 Act* at 18.

During the 2001 hearings that respondent quotes at length (Br. in Opp. 3), Rep. Boucher cited Assistant Attorney General Klein's prior testimony in explaining why legislative action was not required. *Hearing Before the Subcommittee on Courts, the Internet, and Intellectual Property of the Committee on the Judiciary, House of Representatives*, 107th Cong., 1st Sess. 17 (Nov. 8, 2001); see also *id.* at 10 ("[t]he only hesitation about this legislation that I have heard is from those who say that we should not as a matter of principle amend the 100-year-old antitrust laws") (testimony of Charles Baker on behalf of the American Bar Association).

In sum, Congress's inaction is more consistent with a determination to leave the issue to the courts than with endorsement of the presumption. There simply is no basis for the Court to conclude that Congress has overturned the general rule that applies with respect to the Sherman Act and withdrawn this Court's authority to reconsider the market power presumption.

2. Respondent's attempts to rebut the arguments in the petition demonstrating why reconsideration of the presumption is warranted are equally unavailing. First, respondent denigrates the considered view of several Members of this Court, describing the rejection of the market power presumption by four concurring Justices in *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2 (1984), as "nothing more than a single phrase without explanation or analysis" that was "not persuasive to the majority of the court" (Br. in Opp.

19).[1] Respondent also argues that the dissent from the denial of certiorari in *Digidyne* was limited to a market power presumption based on copyright. *Ibid.* But that completely ignores the fact that the courts have not distinguished between patent and copyright. Indeed, this Court's decision in *Loew's* (a copyright case) relied upon the prior decision in *International Salt* (a patent case) and stated the same rule for both. *Loew's*, 371 U.S. at 45 ("economic power is presumed when the tying product is patented or copyrighted"). These views of a number of Members of the Court are highly relevant to whether the presumption should be reconsidered.

Next, respondent acknowledges the conflict among the courts of appeals, but dismisses the Sixth Circuit decision rejecting the market power presumption as the act of "a rogue panel." Br. in Opp. 21. That label does nothing to dissipate the conflict among the courts of appeals, which means that the resolution of this issue now turns upon where a case is filed, and, because of the scope of the Federal Circuit's exclusive appellate jurisdiction (see Pet. 25), whether the case is initiated with a claim of patent infringement or an antitrust violation. That is another important reason why this Court should address the issue.

Respondent asserts that the views of the federal antitrust enforcement agencies are irrelevant and attributes those agencies' rejection of the market power presumption to changes in "the ideology of the Justice Department." Br. in Opp. 14-15. But this Court has often relied upon these agencies' views in reconsidering prior Sherman Act decisions. Pet. 17. And respondent's claim that those views are ideo-

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[1] Respondent asserts (Br. in Opp. 6 n.2) that the concurrence endorsed a rebuttable presumption, but it confuses the explanation of the reasons why a presumption is inappropriate with the concurrence's clear rejection of any sort of presumption. *Jefferson Parish*, 466 U.S. at 37-38 n.7 (O'Connor, J., concurring in the judgment).

logically driven is just wrong: the government IP guideline rejecting the market power presumption was adopted during the Clinton Administration and, as we have just discussed, was vigorously supported by then-Assistant Attorney General Klein. The guideline has remained unchanged during the ten years since it was adopted.[2]

Finally, respondent discounts the views of numerous antitrust scholars on the ground that they are "ideological opponents" of the market power presumption and represent only the "Chicago School." Br. in Opp. 6, 16-18. In fact, these distinguished individuals reflect a broad range of approaches to antitrust scholarship, and their uniform view is supported by the amicus briefs filed by the American Bar Association and the AIPLA, both of whose members "represent the full spectrum of public and private litigants, including plaintiffs and defendants." ABA Motion i; see also AIPLA Motion 1-2. Respondent has not identified a single scholar who endorses the market power presumption.[3] And, although respondent

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[2] Respondent intimates that former FTC Chairman Pitofsky supported the market power presumption. In fact, Chairman Pitofsky's quoted criticism of *In re Independent Service Organizations Antitrust Litigation*, 203 F.3d 1322 (Fed. Cir. 2000), had nothing to do with the presumption. It addressed what he viewed as "extremely narrow limits on a virtually unfettered right of a patent holder to refuse to deal in order to achieve an anticompetitive objective." R. Pitofsky, *Challenges of the New Economy: Issues at the Intersection of Antitrust and Intellectual Property*, 68 Antitrust L.J. 913, 920-21 (2001). In fact, just after the segment respondent quotes, Chairman Pitofsky observed that "[m]isuse of a patent to coerce purchasers to take an unpatented separate product, *assuming the patent confers true market power*, has long been thought to be an illegal tie * * *." *Id.* at 921 (citing *International Salt*) (emphasis added). Clearly Chairman Pitofsky was not suggesting that market power should be presumed.

[3] Neither of the two articles cited by respondent (Br. in Opp. 19) even mentions the presumption. Professor Fox does discuss *Inter-*

believes these scholars' views to be irrelevant (Br. in Opp. 15), this Court has in the past taken note of the weight of authority within the academic community. Pet. 19.

3. The bulk of respondent's argument is devoted to defending the presumption on the merits. See Br. in Opp. 6-14 & 21-24. Of course, respondent never even tries to explain why this presumption applies only in tying cases and has been rejected in every other antitrust context. See Pet. 16-17.

The foundation of respondent's defense of the presumption is its assertion that "[a] rational economic model * * * would presume that if there are two equally desirable products, one of which has a tying restriction and one of which does not * * *, the rational consumer will purchase the product without the tying restriction." Br. in Opp. 8. Therefore, respondent contends, there must be some market characteristic of the tying product that "would cause a consumer to make a rationally disadvantageous decision"; where the tying product is patented that characteristic must be "the market power obtained as a result of the unique features of the patented product." *Id.* at 9.

Respondent's basic premise is wrong. This Court has explained that "not every refusal to sell two products separately can be said to restrain competition. * * * Buyers often find package sales attractive; a seller's decision to offer such packages can merely be an attempt to compete effectively — conduct that is entirely consistent with the Sherman Act." *Jefferson Parish*, 466 U.S. at 11-12; see also *NCAA v. Board of Regents of Univ. of Okla.*, 468 U.S. 85, 104 n.26 (1984)

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national Salt at length, but only to argue that both economists and the courts now recognize that tying is potentially efficient, and therefore the per se rule against tying should apply only when the defendant has sufficient market power over the tying product. E. Fox, *The Modernization of Antitrust: A New Equilibrium*, 66 Cornell L. Rev. 1140, 1189-90 & nn. 179-182 (1981).

("while the Court has spoken of a '*per se*' rule against tying arrangements, it has also recognized that tying may have pro-competitive justifications that make it inappropriate to condemn without considerable market analysis"); *Jefferson Parish*, 466 U.S. at 35-42 (opinion concurring in the judgment) (explaining that tying harms competition only in limited circumstances and describing situations in which tying promotes efficiency and benefits consumers); 9 P. Areeda et al., *Antitrust Law* ¶ 1703a, at 30-31 (2d ed. 2004) ("[a]lthough tying can sometimes impair rivalry and thereby gain or reinforce market power, * * * diminished competition is not the object or effect of most litigated tie-ins, especially not of those foreclosing only a small share of a properly defined tied product market"); IPO Am. Br. 12-13 (explaining consumer benefits from tying); AIPLA Am. Br. 9 (same).

Indeed, it is the insight that tying arrangements may promote rather than injure competition that has led the Court to emphasize the market power requirement in its recent decisions. *Grappone, Inc. v. Subaru of New England, Inc.*, 858 F.2d 792, 797 (1st Cir. 1988) (Breyer, J.) ("Though some members of the Supreme Court might go further, the holding of *Jefferson Parish* convinces us that the entire Court means the 'market power' requirement to be serious enough to screen out [a] class of harmless tie."); see also 10 Areeda et al., *supra*, ¶¶ 1734a, 1734b, at 35-41.

Respondent's reasoning — (1) all tying arrangements harm consumers; (2) a tie accordingly can succeed in the marketplace only if the seller exercises market power with respect to the tying product; and therefore (3) patents on products included in ties that succeed necessarily convey market power — turns the Court's approach on its head by presuming market power based upon the success of a package sale in the marketplace. Under respondent's theory, every tie that succeeds in the marketplace, whether or not it involves a patented product, would constitute an exertion of market power because in respondent's view the very success

of the tie is sufficient to demonstrate market power in the tying product. That approach effectively eliminates the market power requirement in tying cases, a result that is directly contrary to this Court's jurisprudence.[4]

Respondent also places great emphasis on the contention that businesses would not invest in research and development if patents did not convey market power, Br. in Opp. 7-8 & 21-22. What respondent ignores is that "patented improvements typically compete with and provide alternatives to existing products that are already established in, or that may even dominate, the marketplace" and therefore "only rarely afford[] * * * any appreciable market power in a relevant product market in the antitrust sense." AIPLA Br. 4-5; see also Pet. 16-17; Pfizer Am. Br. 6 ("In the pharmaceutical industry, patented goods are seldom sufficiently unique to command market power. Almost all patented products compete with other patented products."); IPO Am. Br. 11-12. In this case, for example, the district court found that petitioners' barcode printing system competed with two other patented products as well as with pre-printed labels. Pet. App. 22a, 35a-36a.

Finally, respondent's brief contains numerous factual assertions, none of which is supported by a citation to the record. That is because many of them are wrong[5] and others — such as the numerous assertions about Hewlett Packard's al-

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[4] Respondent misrepresents our position in asserting that we contend that patents "should be completely disregarded in any economic analysis." Br. in Opp. 6 (footnote omitted). Like any property right, the existence of a patent on the tying product is a fact relevant to the market power analysis; it simply should not suffice to carry a plaintiff's burden of proving market power.

[5] For example, respondent asserts that the patent licenses bind end users of petitioners' equipment. Br. in Opp. 12. In fact, the license applies only to petitioners' OEM customers, not to the end users. See Pet. 3.

leged practices (Br. in Opp. 13-14 & 23-24) — have no support whatever in the factual record in this case.

In sum, respondent cannot justify the market power presumption as a matter either of law or of economics; failed to rebut our showing that the factors relied on by this Court in reconsidering other antitrust precedents all strongly favor reconsideration of the presumption; and is unable to overcome the arguments in the petition, supported by four distinguished amici, establishing the importance of the question presented and the harm to the economy and the litigation system that will flow from the Federal Circuit's determination — a determination that the court of appeals believed to be compelled by this Court's precedents.

For the foregoing reasons, and those stated in the petition, the petition for a writ of certiorari should be granted.

Respectfully submitted.

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v.

INDEPENDENT INK, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITIONERS' SUPPLEMENTAL BRIEF

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PETITIONERS' SUPPLEMENTAL BRIEF

Petitioners file this supplemental brief pursuant to Rule 15.8 of the Rules of this Court calling the Court's attention to a recent speech by Assistant Attorney General for Antitrust R. Hewitt Pate in which he expressly recognized that "there is still some debate in [the] courts" with respect to the question presented in this case regarding the market power presumption and that a grant of certiorari here would "provide a good opportunity to settle the question once and for all." R. H. Pate, *Competition and Intellectual Property in the U.S.: Licensing Freedom and the Limits of Antitrust*, at 13 (June 3, 2005), *available at* http://www.usdoj.gov/atr/public/speeches/209359.pdf.

In his remarks – delivered at a competition law workshop sponsored by the European Union – Mr. Pate stated that "[i]n the view of the Department of Justice and the Federal Trade Commission, the idea that IP rights cannot be presumed to create market power is a settled question." *Id.* at 13. He explained:

> [w]hile intellectual property grants exclusive rights, these rights are not monopolies in the economic sense: they do not necessarily provide a large share of any commercial market and they do not necessarily lead to the ability to raise prices in a market. A single patent, for example, may have dozens of close substitutes. *The mere presence of an intellectual property right does not permit an antitrust enforcer to skip the crucial steps of market definition and determining market effects.*

Id. at 12-13 (emphasis added).

Citing the Federal Circuit's decision in this case, Mr. Pate recognized that, in contrast to the federal agencies' settled view, "there is still some debate [with respect to the market

power presumption] in courts that decide private party antitrust claims." *Id.* at 13 (citation omitted). He observed that the Federal Circuit "held that Supreme Court precedent compelled it to conclude that a patent *does* raise a presumption of market power in an IP tying case" but that the court of appeals' opinion "invited the Supreme Court to reverse." *Ibid.* (citations and footnote omitted; emphasis in original).

Mr. Pate concluded that a grant of certiorari in this case "would provide a good opportunity to settle the question once and for all." *Ibid.*

For the foregoing reasons, and those stated in the certiorari petition and reply brief, the petition for a writ of certiorari should be granted.

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INDEPENDENT INK, INC.,

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On a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

JOINT APPENDIX

VOLUME 1 OF 3

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The following opinions, decisions, judgments, and orders have been omitted in printing this joint appendix because they appear on the following pages in the appendix to the Petition for Certiorari.

Order (1) Denying Plaintiff's Motion for Partial Summary Judgment (2) Granting Defendants' Motion for Partial Summary Judgment, Filed June 3, 2002 ..... 20a

Judgment, Filed Dec. 22, 2003 ..... 57a

Opinion and Judgment of Court of Appeals, Filed Jan. 25, 2005 ..... 1a

Chronological List of Relevant Docket Entries

08/14/1998 – Complaint Filed by Plaintiff Independent Ink, Inc. in the United States District Court for the Central District of California

01/17/2001 – Fourth Amended Complaint Filed by Plaintiff Independent Ink, Inc. in the United States District Court for the Central District of California

10/03/2001 – Motion for Summary Judgment for Per Se Violation of the Antitrust Laws by Patent Tying Filed By Plaintiff Independent Ink in the United States District Court for Central District of California

11/13/2001 – Motion for Partial Summary Judgment On Independent Ink's Second and Third Claims for Antitrust Violations Filed By Defendants Trident, Inc. and Illinois Tool Works Inc. in the United States District Court for Central District of California

06/03/2002 – Order (1) Denying Plaintiff's Motion for Partial Summary Judgment; (2) Granting Defendants' Motion for Summary Judgment

12/22/2003 – Judgment Granted In Favor of Defendants Against Plaintiff

01/13/2004 – Plaintiff's Notice of Appeal Filed

01/25/2005 – Opinion and Judgment of the United States Court of Appeals for the Federal Circuit

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Attorneys For Plaintiff
INDEPENDENT INK, INC.

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

INDEPENDENT INK, INC., a California corporation Plaintiff vs. ILLINOIS TOOL WORKS, INC., a Delaware ILLINOIS TOOL WORKS, INC., a Delaware corporation; TRIDENT, INC., a Connecticut corporation, and DOES 1 through 50 Defendants.	CASE NO. CV98-6686 NM (CWx) **FOURTH AMENDED COMPLIANT FOR FEDERAL DECLARATORY RELIEF; FEDERAL ANTITRUST VIOLATION; STATE ANTI-TRUST VIOLATION; AND CALIFORNIA UNFAIR COMPETITION** DEMAND FOR JURY TRIAL

Plaintiff Independent Ink, Inc., (hereinafter "Independent") complains and alleges as follows:

JURISDICTION AND VENUE

1. These claims arise under the laws of the United States, namely the United States Patent Law (35 U.S.C. § 1, *et seq.*), the Sherman Act (15 U.S.C. § 1, *et seq.*), the

Declaratory Judgment Act (28 U.S.C. §§ 2201 and 2202) and the laws of the State of California. Jurisdiction is proper under 28 U.S.C. §§1331, 1367(a) and exclusive under 28 U.S.C. 1337(a). 1339(a).

2. Venue is proper in this Judicial District under 28 U.S.C. §§ 1391(b) and (c) in that Plaintiff Independent Ink, Inc. ("Independent") resides within this Judicial District, Defendants transacts affairs within this Judicial District and a substantial part of the events or omissions giving rise to the claims herein occurred within this Judicial District.

THE PARTIES

3. Independent is a California corporation having its principal place of business at 13700 Gramercy Place. Gardens, California 90249 and resides in this Judicial District.

4. Defendant Trident, Inc. ("Trident") is formally a Connecticut corporation having its principal place of business at 1114 Federal Road, Brookfield, Connecticut 06804 and committed the acts complained of in this Judicial District.

5. Defendant Illinois Tool Works Inc. ("ITW") is a Delaware corporation with its principal place of business at 3600 West Lake Avenue, Glenview, Illinois 60025-5811 and committed the acts complained of in this Judicial District.

GENERAL ALLEGATIONS

6. Independent is a distributor and supplier of ink and ink products in the field of printing and related arts and industries.

7. Independent has been and is distributing, inks and related products, and selling same to distributors, retailers, and customers in this Judicial District.

8. Defendants have been and are at present manufacturing industrial piezoelectric print heads, containers and ink for

use therein and selling them to customers within this Judicial District and in interstate commerce.

9. ITW is the owner by assignment of United States Patent No. 5,343,226 (the "226 patent"), issued to John F. Niedermeyer, et al., as joint inventors on August 30, 1994.

10. ITW has acquired from Trident by assignment, numerous patents which cover defendant's patented piezoelectric print head system. Defendant ITW acquired the assets of Trident, (including the '226 and other patents) and has continued to operate the business in which Trident was previously engaged.

11. Defendants have and continue to assert, through their sales practices, contracts, patents and patent licenses to numerous third parties, including Independent's customers, that they may buy certain products, including ink for use in Defendant's patented piezoelectric print head system, solely from Defendants, and that no one may reuse or refill ink bottles purchased from Defendants; otherwise, they would be held in breach of contract and/or charged with patent infringement of their above-referenced patents.

FIRST CLAIM FOR RELIEF
(Federal Declaratory Relief)
Against all Defendants

12. This claim is for declaratory relief under the Federal Declaratory Judgment Act; 28 U.S.C. §§ 2201 and 2202, and arises from an actual and justifiable controversy between Independent and Defendants regarding the alleged non-infringement of, and invalidity of, the '226 patent.

13. Independent incorporates by this reference paragraph 1 through 3 of this Complaint as though fully set forth herein.

14. A justifiable controversy has arisen between the parties in that Defendants have contended that Independent infringes the '226 patent by its sale and distribution of certain inks and related services.

15. Independent contends that it has not infringed the '226 patent for, among others, the following reasons:

(a) Defendants have misused the '226 patent by attempting to enforce it so as to prevent the sale of the non-patented ink, sold by Independent.

(b) The '226 patent does not cover Independent's products or services.

(c) The '226 patent is anticipated by or is obvious in light of the prior art.

16. By reason of the foregoing, an actual case and controversy has arisen and exists between the parties as to the enforceability of the '226 patent and the alleged infringement of the same by Independent.

SECOND CLAIM OF RELIEF
(Federal Antitrust Violation)

17. This claim for relief arises under 15 U.S.C. § 1, *et. seq*, and is alleged against both Defendants.

18. Independent realleges the allegations in paragraphs 1 through 16 of this Complaint as though fully set forth herein.

19. Defendants have substantial economic and market power in the market for commercial ink jet inks, patented containers for said commercial ink jet inks and patented printing systems in which said commercial ink jet inks are used.

20. Defendants have been and are selling their commercial ink jet inks and containers and, printing systems for said commercial ink jet inks in interstate commerce to original equipment manufactures (OEMs) and consumers with the condition, that the same OEMs, and consumers will not purchase commercial ink jet inks separate from anyone other than Defendants', nor will they sell any ink not manufactured by Defendants. The agreements between Defendants and the OEMs provide patent licenses for all of the patented printing

system and the patented print head related technology purchased from Defendants. These agreements and licenses specifically require the OEMs and their customers to purchase all of their consumables, including ink, for use with their patented technology from Defendants.

21. Defendants' conditions and conduct have the effect of substantially eliminating competition in the market for ink which is used in Defendants' patented piezoelectric printing system, including ink which can be used to refill Defendants' patented containers. These actions comprise unreasonable restraints of trade, affect interstate commerce, and are designed as part of a larger scheme by Defendants to monopolize the above-referenced ink market and to prevent Independent and others from freely competing therein.

22. Defendants have attempted to broaden the scope of protection of the '226 patent through imposition of the single-use license as well as attempting to broaden the scope of the patent licenses set forth in the OEM-Trident contracts.

23. Defendants' attempts to broaden the scope of protection of the '226 and other patents through imposition of the single-use license and the OEM contract restrictions have an unreasonably anticompetitive effect on the relevant market and constitute illegal tying.

24. Defendant's use of their market power to impose a requirement that all ink for use in that system be purchased from Defendants is an illegal tying restraint of trade.

25. Defendants' overall course of conduct including but not limited to, the specific acts set forth above as well as other acts such as filing meritless litigation, threatening breach of warranty for those who use ink from sources other than Defendants, threatening litigation, threatening the withholding of print heads, and acquiring OEMs constitutes an illegal restraint of trade.

26. The Defendants have also conspired with each other and with their OEMs to keep ink "pirates" from selling ink in competition with Defendants.

27. The foregoing conduct of Defendants constitutes monopolization, conspiracy to restrain trade, conspiracy to monopolize and attempted monopolization in violation of the antitrust laws of the United States for which Independent is entitled to recover treble the damages it sustained as a result of said conduct.

28. By reason of Defendants' illegal conduct, Defendants have unlawfully and wrongfully derived, and will continue to unlawfully and wrongfully derive, income and profits from these acts, and Independent by reason of this illegal conduct has sustained, and will continue to sustain, substantial injury, loss and damage of the type the federal antitrust laws were designed to prevent in an amount according to proof.

29. This conduct by Defendants has been deliberate, willful, and malicious.

30. Unless restrained and enjoined by this Court, Defendants will continue to act in violation of the antitrust laws of the United States, to cause harm to the consuming public, and to injure Independent's legitimate business practices.

31. Defendants' conduct has caused Independent irreparable injury and unless Defendants' acts are immediately and permanently enjoined, Independent will continue to suffer irreparable harm and injury.

THIRD CLAIM OF RELIEF
(State Antitrust Violation)

32. This claim for relief arises under California Business & Professions Code §§ 16727 *et seq*, and is alleged against all Defendants.

33. Independent realleges the allegations in paragraph 1 through 29 of this Complaint as though fully set forth herein.

34. Defendants' conduct is in violation of California Business & Professions Code §§ 16727 *et seq*, and Independent is entitled to all the relief provided herein.

FOURTH CLAIM FOR RELIEF
(California Unfair Competition)

35. This claim for relief arises under the California Business & Professions Code §§ 17200 *et seq*, and 17500.

36. Independent realleges the allegations in paragraphs 1 through 29 of this Complaint as though fully set forth herein.

37. Defendants' above-enumerated acts constitute a pattern of behavior pursued in the course of Defendants' businesses and involved class-wide acts directed at distributors, retailers and consumers.

38. Defendants impermissibly extended the scope and extent of the '226 patent and Defendants' other patents. Said patents were not infringed by any products of Independent.

39. Defendants' conduct was unfair and fraudulent behavior pursued in the course of their businesses, as described above.

40. Defendants made statements in connection with the sale of their goods and merchandise that Independent was in violation of their patents and that Independent's customers who were purchasing Independent Ink, Inc.'s inks were in violation of Defendants' rights. Defendants have also made statements to their customers and Independent's customers that Defendants would prevail against Independent in their suit for infringement of the '761 patent, even after the decisions of this Court made it clear that they could not possibly prevail in that action. These statements were false and misleading, and likely to deceive a substantial segment of their intended audience.

41. Defendants have wrongfully and unlawfully derived income and profits from their activities and will continue to

so derive income and profits from their unfair business practices, and Independent has sustained, and will continue to sustain, substantial injury, loss and damage in an amount according to proof.

42. Defendants' activities have caused Independent irreparable injury and unless Defendants' unfair business practices are immediately and permanently enjoined, Independent will continue to suffer irreparable harm and injury.

43. Independent is informed and believes, and on such basis alleges, that this conduct by Defendants has been willful, wanton, and malicious.

FIFTH CLAIM FOR RELIEF
(Fraud)

44. Independent realleges the allegations in paragraphs 1 through 29 and 37 through 43 of this Complaint as though fully set forth herein.

45. Defendant's conduct constitutes fraudulent misrepresentation.

SIXTH CLAIM FOR RELIEF
(Intentional Interference With Prospective Business Advantage)

46. Independent realleges the allegations in paragraphs 1 through 29 and 37 through 43 of this Complaint as though fully set forth herein.

47. Defendant's conduct constitutes intentional interference with prospective business advantage.

SEVENTH CLAIM FOR RELIEF
(Negligent Interference With Prospective Business Advantage)

48. Independent realleges the allegations in paragraphs 1 through 29 and 37 through 43 of this Complaint as though fully set forth herein.

49. Defendant's conduct constitutes negligent interference with prospective business advantage.

WHEREFORE, Independent prays for judgment against Defendants as follows:

1. That this Court issue a declaration ruling that:

   (a) United States Patent No. 5,343,226 is invalid.

   (b) United States Patent No. 5,343,226 is unenforceable.

   (c) Independent did not and does not infringe United States Patent No. 5,343,226.

2. That this Court issue an Order that Defendants be required forthwith to supply Independent's counsel with a complete list of any individuals or entities with whom any Defendant, or any of its agents or representatives, have committed the acts complained of in this Complaint.

3. That this Court enjoin Defendants from committing any future acts of the nature of those complained of in this Complaint, and namely, from forcing or otherwise requiring its customers to refrain from purchasing replacement ink from Independent or any other supplier of such replacement ink and from other such unlawful, unfair, and/or fraudulent business practices.

4. That this Court order Defendants to pay to Independent such damages as Independent has sustained as a consequence of Defendants' actions, and account of all gains, profits and advances derived by Defendants from the acts complained of, together with appropriate interest thereon.

5. That this Court require an accounting and award Plaintiff the profits obtained by Defendants by virtue of the above-mentioned activities.

6. That the damages. awarded to Plaintiff be trebled in accordance with 15 U.S.C. §§ 15 and 1117.

7. That this Court award Plaintiff punitive damages for the Defendants' willful wanton, malicious and fraudulent conduct.

8. That Defendants pay Independent's costs and disbursements in this action, together with reasonable attorneys' fees; and

9. That Independent have such other and further relief as the Court may deem just and proper.

Respectfully submitted,

STRADLING YOCCA
CARLSON & RAUTH

Dated: January 16, 2001

/S/ EDWARD F. O'CONNOR
Edward F. O'Connor
Jan P. Weir

Attorneys for Plaintiff
INDEPENDENT INK, INC.

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DEMAND FOR JURY TRIAL

Plaintiff Independent Ink, Inc. hereby demands a jury trial in this matter.

Respectfully submitted,

STRADLING YOCCA
CARLSON & RAUTH

Dated: January 16, 2001

/s/ EDWARD F. O'CONNOR
Edward F. O'Connor
Jan P. Weir

Attorneys for Plaintiff
INDEPENDENT INK, INC.

PROOF OF SERVICE

STATE OF CALIFORNIA)
) ss
COUNTY OF ORANGE)

I am a resident of the State of California, over the age of eighteen years, and not a party to the within action. My business address is Stradling Yocca Carlson & Rauth, 660 Newport Center Drive, Suite 1600, Newport Beach, CA 92660-6422. On January 17, 2001, I served the within documents:

FOURTH AMENDED COMPLAIN' FOR: FEDERAL DECLARATORY RELIEF; FEDERAL ANTITRUST VIOLATION; STATE ANTITRUST VIOLATION; AND CALIFORNIA UNFAIR COMPETITION

☒ I sent such document from facsimile machine (949) 725 x 4100 on January 17, 2001. I certify that said transmission was completed and that all pages were received and that a report was generated by facsimile machine (949) 725-4100 which confirms said transmission and receipt. I, thereafter, mailed a copy to the interested party(ies) in this action by placing a true copy thereof enclosed in sealed envelop(s) addressed to the parties listed below.

☒ by placing the document(s) listed above in a sealed x envelope with postage thereon fully prepaid, in the United States mail at Newport Beach, addressed as set forth below.

☐ by personally delivering the document(s) listed above to the person(s) at the address (es) set forth below.

Martin J. Foley, Esq.
Laura A. Wytsma, Esq.
SONNENSCHEIN NATH & ROSENTHAL
601 S. Figueroa Street, Suite 1500
Los Angeles, CA 90017-5704

G. Marc Whitehead, Esq.
Gary Senner, Esq.
Jordan Sigale, Esq.
SONNENSCHEIN NATH & ROSENTHAL
8000 Sears Tower
Chicago, Illinois 60606

I am readily familiar with the firm's practice of collection and processing correspondence for mailing. Under that practice it would be deposited with the U.S. Postal Service on that same day with postage thereon fully prepaid in the ordinary course of business. I am aware that on motion of the party served, service is presumed invalid if postal cancellation date or postage meter date is more than on day after the date of deposit for mailing in affidavit.

I declare that, I am employed in the office of a member of the bar of this court whose direction the service was made.

Executed on January 17, 2001, at Newport Beach, California.

/s/ ANN NELSON
ANN NELSON

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INDEPENDENT INK, INC.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

INDEPENDENT INK, INC., a California corporation Plaintiff vs. TRIDENT, INC., believed to be a Connecticut corporation, and Does 1 through 50, Defendants.	CASE NO. CV98-6686 NM (CWx) **DECLARATION OF BARRY BRUCKER IN SUPPORT OF INDEPENDENT'S REPLY TO TRIDENT'S OPPOSITION TO INDEPENDENT'S MOTION FOR SUMMARY JUDGMENT OF NON-INFRINGEMENT OF U.S. PATENT NO. 5,343,226 AND ANTITRUST VIOLATION**
TRIDENT, INC., a Connecticut corporation Counterclaimant, vs. INDEPENDENT INK, INC., a California corporation, and DOES 1 through 10 Counterdefendants.	DATE: August 28, 2000 TIME: 10:00 a.m. Hon. Nora M. Manella

I Barry Brucker hereby declare as follows:

1. I have personal knowledge of the facts set forth in this declaration and if called upon can and will testify to them in a court of law.

2. This declaration is largely supported by

(a) COMMON STOCK PROSPECTUS OF TRIDENT: **EXHIBIT 1**

(b) A PRESENTATION OF Mr. PAUL SCHOESSOW OF CAP VENTURES AT THE IMI TECHNICAL CONFERENCE '99 ABOUT THE MARKET SHARES OF HI - RESOLUTION CARTON CODING SYSTEMS: **EXHIBIT 2**

Please note: CAP Ventures located in Norwell, MA, is the leading consulting and technical research organization that has a focused team involved in the research and Industrial Marketing and Printing. IMI (Information Management Institute) is the premier technical information group that organizes conferences on Industrial Printing.

(c) A COPY OF A TRIDENT OEM SALES AND LICENSE AGREEMENT: **EXHIBIT 3**

(d) A copy of the letter to Tree Top (a company that uses patented Trident Printheads) forwarded to Independent Ink, Inc. by Tree Top to show why Tree Top would not buy refill ink from Independent Ink. **EXHIBIT 4**

(e) A COPY OF A HP CARTRIDGE LABEL: **EXHIBIT 5**

3. Trident (A division of Illinois Tool Works (ITW)) is the market leader in the field of Impulse Jet printhead and apparatus used for Hi Resolution Printing directly onto Shipping cartons / Kraft Paper. Trident has a firm hold on the market for direct Hi - Resolution printing on shipping cartons/ Kraft Paper.

4. Since we supply and solicit Hi-Resolution ink business from customers using Trident equipment located in many states, in the USA, I am aware that Trident and Independent Ink are involved in Interstate commerce of Inks for use in Hi-Resolution impulse printheads supplied by Trident.

5. As per paragraph 1, page 3, of the common stock prospectus (Exhibit 1), Trident (A division of ITW) designs and manufactures and markets impulse ink jet printheads, inks and other consumables and related components for the Industrial Market.

6. As mentioned in page 32, paragraph 2 of Exhibit 1, Trident offers fast Impulse printheads, subsystems and Ink delivery systems (Ink Jet apparatus) to OEM's under a licensing agreement.

7. As mentioned in exhibit 1, the common stock prospectus, Page 3 paragraph 2, and also in paragraph 2, Page 30, the largest application for Trident printheads and sub systems is Carton Coding which involves printing Graphics, Text and Scannable SCC & UPC Bar codes on shipping cartons.

8. As mentioned in exhibit 1, paragraph 3, page 8, Trident (now owned by ITW) printhead and apparatus sales are dependent on the top ten OEMs. The ten OEMs are:

a. Imaging Technologies Inc. (now owned by ITW)

b. Fox Jet (now owned by ITW)

c. Loveshaw (now owned by ITW)

d. Marsh

e. Diagraph

f. Mathews

g. Willet

h. Videojet

i. Imaje

j. Anser

9. As mentioned in page 32, paragraph 2 of exhibit 1, Trident has licensed its printheads, subsystems and apparatus to substantially all of the major providers of ink jet systems for carton coding applications. Also, as mentioned in page 38, paragraph 4, of exhibit 1 this market segment of carton coding using Piezoelectric impulse printheads is controlled by the OEMs who in turn are licensed by Trident.

10. As per page 32, paragraph 3 of the prospectus (Exhibit 1) and the PIE chart of CAP ventures (exhibit 2) Trident by virtue of its Licensing arrangement with substantially all of the major providers of the Hi-Resolution Ink Jet systems for carton coding applications has well over 95% of the market for Hi-Resolution printing on Carton boxes.

11. As mentioned in exhibit 1 page 32, paragraph 1, The objective of Trident/ITW is to remain a leading supplier of Impulse Ink Jet systems and related consumables to the Industrial Market of which Carton Coding is the largest segment of Trident's business.

12. The OEM customers construct Carton coding systems using Tridents Piezoelectric Impulse Ink Jet printheads, ink reservoirs and Ink. This is also further supported by paragraph 4, page 33 of Exhibit 1.

13. As mentioned in page 35, paragraph 4 of exhibit 1 Trident is also committed to providing its OEM customers and their end users with *all* of their Piezoelectric impulse ink jet products and service requirements.

14. As mentioned by Trident in exhibit 1, page 41, paragraph 3 Trident licenses the Piezoelectric impulse ink jet products and ink jet apparatus to all its OEM's under a strict licensing arrangement. A copy of a Trident OEM Sales and License agreement is attached hereto as exhibit 3. The License agreement states that Trident printheads have to be

used *only* with their Consumables, apparatus and sub systems. This license also ensures that the OEMs and customer will purchase *all* their consumables *only* from Trident. This is further supported by page 1 Under "License Grant/Applications/Field of Use ("Licensed products") and also page 9 paragraph 19 of exhibit 3 under "Supply Assurance".

15. The licensing arrangement of Trident very clearly ties the supply of printheads to, the use of its ink and ink supply systems. (refer exhibit 3 paragraph 20 of page 10 under definition of "Licensed Product")

16. Trident by its licensing arrangement as mentioned in exhibit 3 page 9 paragraph 19 under 'supply Assurance" specifies very clearly that the buyer (OEM) *will* purchase ink jet printing devices and *all* of its (buyer's) requirements of Ink and ink supply systems only from Trident.

17. Trident has made it very clear through its licensing agreement that the OEMs cannot purchase any product from other sources including inks (not patented by Trident) and it considers this activity as "unlicensed activity" by the OEMs and their end user customers, consequently voiding warranty. This is supported by paragraph 4, Page 38 of the prospectus (Exhibit 1).

18. As mentioned in page 41, paragraph 3 of exhibit 1,the Licensed OEM customers of Trident are generally asked to assign any interest they obtain in any proprietary rights including inventions and resulting patents and patent applications.

19. Because (as shown in Exhibits 1 and 3) Trident does not allow any other printhead or consumable to be used in conjunction with its Piezoelectric Impulse printing systems, apparatus or sub systems, this limits the OEMs to *always* use Trident printheads and consumables.

20. Independent Ink' s business has suffered as a result of Trident's "Single use only, Do not refill" restriction. We have been told by Tree Top (a food company that uses Trident's patented printheads) that they would not buy our ink because of the possibility of Trident suing them if they refilled the bottles. Exhibit 4 is a copy of the letter forwarded to us by Tree Top to show Tree Top's state of mind regarding its fears.

21. The European Affiliate of Independent Ink, referred to in Elaine Pullen's declaration, sells a container which is the same as that shown in the preferred embodiment in Trident's 226 patent. To the best of my knowledge Trident has no European Patent for this embodiment.

22. As mentioned in Ms. Elaine Pullen's declaration Squid Ink offered two versions of containers. One, very similar to a mustard bottle, allowed the customers to refill Trident bottles *in violation of Trident's license*. The second version, that fits into the Trident reservoir, was launched only a few months ago.

23. A copy of the projected 1999 High Resolution Ink Jet Carton Coding Market shares from CAP ventures (Exhibit 2) was presented at the 1999 IMI conference by Mr. Schoessow, Director of Industrial Marketing and Printing at CAP Ventures. It shows that Trident OEMs, such as Videojet, Marsh; Foxjet; Diagraph; Mathews; Willet, and others, account for well over 92% market share. Markem, a competitor of Trident, has only 1% market share. A substantial percentage of the 7% market share designated "Others" are smaller Trident OEMs including Imaje, Anser, Loveshaw etc. This further supports my understanding of Trident's monopoly in the Hi-Resolution Carton Coding Market.

24. Due to the above facts substantiated by extracts from Trident's Common stock prospectus (Exhibit 1), a PIE Chart from CAP Ventures (Exhibit 2), a copy of Typical OEM agreement (Exhibit 3) and the '226 Patent, it is easy to de-

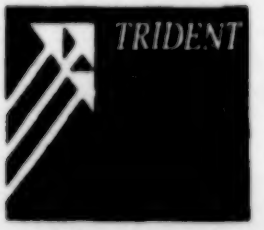
duce that Trident has a 100% market share in the market for Piezoelectric Impulse printheads used for Carton Coding (covered by the '226 Patent) and close to 100% of the market for ink used in Trident's patented containers. Trident's license, if enforced as Trident is attempting, would give it 100% share of the ink market.

25. Large Ink Jet printer manufacturing companies like Hewlett Packard (HP), who sell Patented Ink Jet cartridges do not impose a Single Use License or a Do not refill restriction. In fact the HP Cartridge package is only marked "Intended for Single Use Only". Please see Exhibit 4. Due to the Lack of this restriction a huge Industry for Refilling "used" HP cartridges is thriving and offering the customers the choice to buy refilled cartridges at a much lower cost than a Original cartridge. This choice is denied to owners of Trident printheads.

I declare under penalty of perjury of the laws of the State of California as well as under the laws of the United States of America that the statements contained herein are true and correct

Date: 7-14-2000

/S/ BARRY BRUCKER
Barry Brucker



*P*roviding industrial customers with quality, cost effective ink jet products and consumables for non-contact printing.

The Trident® Ultrajet™ Impulse Ink Jet Imaging subsystem is marketed to OEM customers which provide systems to end-users for printing the text, graphics and bar codes onto blank cartons as they move down the assembly line. These products allow the information to be changed frequently, even carton-by-carton, eliminating the need for preprinted cartons or labels.

The Company intends to furnish its stockholders with annual reports containing financial statements audited by the Company's independent public accountants and quarterly reports for the first three fiscal quarters of each fiscal year containing unaudited interim financial information.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Trident® impulse ink j imaging solutions for

Subsystems

The Trident® impulse ink jet subsystem is marketed to original equipment manufacturers which incorporate them into specialized equipment for industrial imaging applications. The proprietary subsystem is made up of three basic components: the printhead, located in the foreground; the ink reservoir; and Trident's ink formulations, supplied in bottles that are inserted into the reservoir.

The Ultrajet™ impulse ink jet printhead provide which create images up to 1.9 inches (48mm) w and construction provide industrial end-users with are critical for minimizing production down-time

Consumables

Proprietary inks are among the consumables offered by Trident. Trident s patented ink formulations are used for imaging onto porous and semi-porous surfaces and are available in several colors. These inks are packaged in bottles and in smaller cartridges.

Applications

t subsystems provide
ıe industrial market.

Trident's patented piezoelectric impulse ink jet technology creates micro droplets of ink at frequencies up to 10,000 drops per second from each orifice. These droplets travel across a small gap through the air to form a high resolution image on the printing surface.

Technology

Micro droplets of ink are ejected from orifices smaller than a human hair. Shown in comparison to a penny, Trident's patented multi-orifice design provides increased imaging area without added cost or complexity.

32 individually controllable ink channels
at production line speeds. Its robust design
igh reliability and low maintenance, which
ed operating costs.

Trident's printheads are used in a wide variety of industrial applications which include printing text, graphics and bar codes onto shipping cartons, applying addresses, postal bar codes and cancellation marks to mail pieces, coding checks and plotting garment patterns.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and the Financial Statements and Notes thereto appearing elsewhere in this Prospectus. Unless indicated otherwise, the information contained in this Prospectus assumes that the Underwriters' over-allotment options will not be exercised. See "Description of Capital Stock" and "Underwriting."

The Company

The Company designs, manufactures and markets impulse ink jet subsystems, including printheads, inks and other consumables, and related components for the industrial market. The Company's proprietary products are used for a variety of printing applications which require high speed, good print quality, durable equipment and the ability to change the printed text or pattern frequently. The Company's Ultrajet printing subsystems are marketed worldwide, primarily through over 70 original equipment manufacturer ("OEM") customers which integrate them into computer-controlled, application-specific products that are then sold to end-users. The Company's contracts with its OEM customers also provide for ongoing sales by the Company of consumables, consisting principally of inks and printing subsystem components.

The largest application for the Company's products is carton coding, which involves printing directly onto shipping cartons. Carton coding systems which incorporate the Company's products allow end-users to print any combination of high quality text, bar codes, and graphics directly onto blank cartons as they move down an assembly or production line. The Company's products allow this information to be changed frequently, even carton by carton, thereby eliminating the need to maintain a substantial inventory of preprinted cartons or labels, while also reducing production time and costs and allowing for frequent changeover between prod-

ucts. A recent industry estimate by Giga Information Group, formerly BIS Strategic Decisions, predicts that overall end-user demand for impulse ink jet products in the carton coding market will grow from $25 million in 1994 to $140 million in 1999, based on end-user prices. Other current industrial applications for the Company's products include check coding, addressing and business forms imprinting, postal bar coding, stamp cancellation and garment pattern plotting.

The Company's net sales have grown from $6.4 million for the 12 months ended December 31, 1991 to $17.3 million for the twelve months ended September 30, 1995 ("Fiscal 1995"). Over the same period, the Company's operating income has grown from $1.1 million to $4.9 million. In addition, the Company's net sales increased from $3.4 million for the three months ended December 31, 1994 to $6.0 million for the three months ended December 31, 1995. The Company's international net sales have grown from $3.5 million for the twelve months ended September 30, 1994 ("Combined 1994") to $5.2 million for Fiscal 1995. The growth rate in the. Company's international sales during Combined 1994 and Fiscal 1995 has been higher than the Company's overall growth rate. For a description of the Company's 1994 acquisition of its predecessor, see "Certain Transactions — The 1994 Acquisition."

Trident's mission is to be a leading supplier of impulse ink jet printheads, inks and other consumables and related products for industrial applications. The Company's operating strategy is to supply OEM customers with innovative new products that combine the functionality and flexibility of impulse ink jet technology with the durability, speed and print area demanded by end-users. The Company's strategy is to: (i) maximize its opportunity in the carton coding application by expanding its market share and introducing new products; (ii) improve its position in addressing, postal, financial and plotting markets primarily through the introduction of new products; (iii) expand its international sales and

applications support where markets are less developed than in the U.S.; (iv) penetrate new market areas including wide area printing of signs, billboards and fabrics, printing onto parts and primary packages and security printing; and (v) develop or acquire additional proprietary technologies. The Company evaluates potential acquisitions from time to time, including licenses of technology, and believes such transactions may offer an attractive method for the Company to expand its business. However, the Company presently has no pending commitments or understandings to enter into any such transactions. See "Business — Business Strategy."

The Offering

Common Stock offered by the Company	1,900,000 shares
Common Stock offered by the Selling Securityholders	1,100,000 shares (1)
Common Stock to be Outstanding after the Offering	6,951,288 shares(2)
Use of proceeds by the Company	To repay indebtedness, including approximately $15.3 million of indebtedness due to the Selling Securityholders upon consummation of the Offering, and for general corporate purposes, including working capital, capital expenditures and possible acquisitions. See "Use of Proceeds."
Proposed Nasdaq National Market symbol	TRDT

(1) The shares being offered by the Selling Securityholders hereby are being registered for resale by those Selling Securityholders in this Offering only.

(2) Does not include (i) 113,000 shares of Common Stock which were subject to outstanding stock options as of December 31, 1995 at a weighted average exercise price of $3.89 per share, none of which are exercisable prior to August 10, 1996; (ii) 235,192 shares of Common Stock currently issuable upon exercise of a warrant (the "Stockholders' Warrant") held for the benefit of certain holders of the Company's Common Stock at an exercise price of $1.00 per share and (iii) options to purchase up to 30,000 shares of Common Stock at the initial public offering price which the Company anticipates granting to certain employees upon commencement of the Offering, none of which will be exercisable until the first anniversary of the date of this Prospectus. See "Certain Transactions," "Principal and Selling Securityholders," "Capitalization," "Management — Stock Option Plan" and Note 10 of Notes to Consolidated Financial Statements.

Summary Consolidated Financial Information
(in thousands, except share data)

	Predecessor(1)			Pro Forma Combined(2)		The Company	
	For the 12 months ended December 31,		For the 9 months ended September 30,	For the 12 months ended September 30,	For the fiscal year ended September 30,	For the 3 months ended December 31,	
	1991	1992	1993	1994	1995	1994	1995
Consolidated Statement of Operations:							
Net sales	$6,405	$8,251	$7,417	$12,493	$17,330	$3,436	$6,047
Cost of sales	3,204	3,628	3,157	5,853	6,604	1,440	2,347
Gross profit	3,201	4,623	4,260	6,640	10,726	1,996	3,700
Operating expenses							
Marketing and selling	539	668	516	701	912	198	265
Research and development	798	690	625	1,078	1,317	267	447
General and administrative	421	670	587	1,137	1,580	339	533
Amortization of intangibles	375	233	252	486	802	200	200
Amortization of deferred compensation					1,183	295	296
Total operating expenses	2,133	2,261	1,980	3,402	5,794	1,299	1,741
Operating income	1,068	2,362	2,280	3,238	4,932	697	1,959
Interest (income) expense, net	149	16	(10)	482	1,845	464	428
Redeemable warrant interest charge	—	—	—	—	4,561	1,140	1,142
Income (loss) before income taxes	919	2,346	2,290	2,756	(1,474)	(907)	389
Provision for income taxes	234	864	954	1,280	1,965	273	794
Net income (loss)	$ 685	$1,482	$1,336	$1,476	$(3,439)	$(1,180)	$(405)
Pro Forma Data(3):							
Operating income						$6,448	$2,338
Interest income						54	40
Provision for income taxes						(2,880)	(1,020)
Net income						$3,622	$1,358
Net income per common share						$0.50	$0.19
Weighted average common shares						7,250,069	7,257,281

	December 31, 1995	
	Actual	As Adjusted (4)
Consolidated Balance Sheet Data:		
Working capital	$3,654	$19,336
Total assets	24,653	35,203
Total long-term debt	12,052	—

Redeemable common stock warrants	9,703	
Redeemable preferred stock	3,360	
Stockholders' equity (deficit)	(1,979)	33,391

(1) The Predecessor (the "Predecessor") refers to Trident, Inc., the Company's operating subsidiary, prior to its acquisition on June 24, 1994 from Purolon, Inc. ("Purolon"), a wholly-owned subsidiary of Johnson Worldwide Associates, Inc. ("JWA")

(2) The pro forma combined statement of operations data for the 12 months ended September 30, 1994 represents the Predecessor's results from October 1, 1993 through June 23, 1994, and the Company's results from inception (June 24, 1994) through September 30, 1994, and does not purport to represent the results of operations as if Trident International, Inc.'s acquisition of the Predecessor (the "1994 Acquisition") occurred on September 30, 1993. This information is presented to provide more meaningful period to period comparisons. See "selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(3) The pro forma data give effect as of September 30, 1994 to (i) the conversion of all of the 307,317 shares of the Company's Series A Convertible Participating Preferred Stock (the "Convertible Preferred Stock") into 3,073,170 shares of Common Stock, (ii) the issuance of 418,118 shares of Common Stock upon the exercise in full of a warrant (the "NationsCredit Warrant") issued to NationsCredit Commercial Corp. ("NationsCredit," formerly Greyrock Capital Group, Inc. and Nations Financial Capital Corporation) in connection with the 1994 Acquisition, (iii) the sale of 1,900,000 shares of Common Stock offered by the Company hereby at the initial public offering price of $10.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company, and the application of the net proceeds therefrom as described under "Use of Proceeds", (iv) the elimination of certain expenses which will terminate upon the consummation of the Offering including (a) the elimination of redeemable warrant interest charges of $4.6 million in Fiscal 1995 and $1.1 million for the three months ended December 31, 1995 relating to the NationsCredit Warrant, (b) the elimination of deferred compensation expense of $1.2 million in Fiscal 1995 and $296,000 for the three months ended December 31, 1995 relating to that portion of the Stockholders' Warrant held by employees and directors of the Company, (c) the elimination of $1.9 million in Fiscal 1995 and $470,000 for the three months ended December 31, 1995 of interest expense and certain deferred financing costs resulting from the repayment of the indebtedness under a credit agreement entered into in connection with the 1994 Acquisition (the "Credit Facility") and the principal amount of zero coupon notes (the "Notes") issued in connection with the 1994 Acquisition, and (d) the elimination of $333,000 in Fiscal 1995 and $83,000 for the three months ended December 31, 1995 of amortization expense relating to a consulting agreement entered into with JWA in connection with the 1994 Acquisition (the "Consulting Agreement"). The pro forma data do not assume that any interest income is earned on the net proceeds from the Offering and should not be considered representative of the Company's actual results of operations for Fiscal 1995, the three months ended December 31, 1995 or its future operating results. See "Pro Forma Condensed Consolidated Financial Statements" for a more complete description of the pro forma events and adjustments.

(4) Adjusted to give effect to (i) the conversion of 307,317 shares of Convertible Preferred Stock into 3,073,170 shares of Common Stock, (ii) the issuance of 418,118 shares of Common Stock upon the exercise in full of the NationsCredit Warrant, and (iii) the sale of 1,900,000 shares of Common Stock offered by the Company hereby at the initial public offering price of $10.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company, and the application of the net proceeds therefrom as described under "Use of Proceeds."

RISK FACTORS

An investment in the shares of Common Stock offered hereby involves a high degree of risk. Prospective investors should carefully consider the following risk factors, in addition to the other information set forth in this Prospectus, in connection with an investment in the shares of Common Stock offered hereby.

Technological Change. The markets for the Company's products are characterized by changing technology, evolving industry standards and changing customer needs. The Company's future success will depend in part on its ability to enhance its current products and to develop new products on a timely and cost-effective basis in order to respond to technological developments and changing customer needs. Any failure by the Company to anticipate or respond adequately to changes in technology and customer preferences, or any significant delay in product developments or introductions, could have a material adverse effect on the Company's financial condition and results of operations. There can be no assurance that the Company will be successful in developing new products or enhancing its existing products on a timely or cost-effective basis, or that such new products or product enhancements will achieve market acceptance. The introduction of new or enhanced products requires that the Company manage the transition from existing products in order to meet changes in customer ordering patterns, manage levels of product inventory and ensure that adequate supplies of new products can be delivered to meet customer demand. New product introductions could contribute to quarterly fluctuations in the Company's operating results as orders for new products commence and orders for existing products decline. New products could also have the effect of decreasing customer demand for the Company's current products. Although the Company historically has not experienced any material adverse impact on its business, financial condition or results of operations attributable to delays in the introduction of new

products, there can be no assurance that delays will not occur in the future or that such delays, if experienced, would not have a material adverse effect on the Company's business, financial condition or results of operations. The Company expects a component of its growth strategy to be the acquisition of new technologies, whether through entering into licensing arrangements, acquiring businesses owning desirable technology, or otherwise. There can be no assurance that the Company's investments in new technologies will lead to the successful development of new products, or that any such new products, if developed, will achieve market acceptance or prove to be profitable. See "Business — Engineering, Research and Development and Intellectual Property."

Competition. The industrial printing industry is highly competitive and the Company believes it will need to continue to develop new products and applications in order to remain competitive. Several of the Company's competitors are larger and have greater financial, research and development, marketing and other resources than the Company. In addition, the Company may face additional competition from other companies in the future, particularly from manufacturers of computer printers for the office and home markets and other developers of impulse ink jet technologies. No assurance can be given that the Company will be able to compete successfully against current or future competitors or that the competitive pressures faced by the Company will not adversely affect its results of operations. Recently, the Company became aware that manufacturers of certain ink products are claiming that their inks could be utilized with certain of the Company's impulse ink jet printheads. Although the use of such other inks will void the Company's warranties on its printheads, and could, in the Company's judgment, result in inferior performance and permanent damage to its printheads, there can be no assurance that the introduction and sale of such other inks will not have a material adverse effect on the Company's financial condition or re-

sults of operations. Moreover, the Company is in the process of developing new printhead products which will be capable of using a broader range of inks, including inks not sold by the Company. The introduction of any such products could increase competition for sales of ink products to the Company's customers. Approximately 33.0% of the Company's total net sales during the twelve months ended December 31, 1995 resulted from sales of ink products. The Company is aware that Nu-Kote Holding, Inc. ("Nu-Kote") has acquired a new ink jet technology and intends to produce a low cost impulse ink jet printhead for both office and industrial applications. If Nu-Kote is successful in the future in penetrating any of the Company's target markets, such penetration could have a material adverse effect on the Company's business, financial condition and results of operations. The Company is not aware of any other announcements by competitors expected to have a material adverse effect on the Company's business, financial condition or results of operations. See "Business — Business Strategy" and "— Competition."

Dependence on Key Suppliers. The Company's ability to produce and ship its products on schedule is highly dependent on timely receipt of an adequate supply of components and materials from its key vendors. The Company currently relies on single suppliers for some of its key products and components. In particular, the Company is required to obtain substantially all of its ink products from Micropore, Inc. ("Micropore") pursuant to a certain supply agreement. Micropore purchased the ink manufacturing business of Porelon, the former parent of the Company's operating subsidiary, in May 1994 at which time the Company and Micropore entered into the supply agreement. There can be no assurance that the Company's supply of inks from Micropore will not be interrupted, or that if such supply were interrupted, the Company could find another supplier on a timely or satisfactory basis. Any disruption or termination of supplies from Micropore could have a material adverse effect on

the Company's business, financial condition and results of operations. In addition, the Company currently obtains all of the stainless steel orifice plates, which are key components in some of the Company's printhead products, from a small, privately-held company. The Company currently purchases these orifice plates pursuant to purchase orders and has no long-term supply agreement with respect to such purchases. Small, privately-held companies like this supplier may be more likely to experience financial or operating difficulties than larger, more established companies. Any disruption or termination of supplies of these stainless steel orifice plates, whether due to financial problems experienced by this supplier or otherwise, could have a material adverse effect on the Company's business and results of operations.

The Company could incur set-up costs and delays in manufacturing should it become necessary to replace any key vendors due to work stoppages, shipping delays, financial difficulties or other factors and, under certain circumstances, these costs and delays could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business — Manufacturing and Suppliers."

Dependence on Sales by Third Parties. The Company's net sales are dependent upon the ability of its OEM customers to develop and sell products that incorporate the Company's impulse ink jet products. Factors such as economic conditions, inventory positions, limited marketing resources and other factors affecting these OEM customers could have a substantial impact upon the Company's financial results. No assurances can be given that the Company's OEM customers will not experience financial or other difficulties that could adversely affect their operations and, in turn, the results of operations of the Company. In addition, the Company must design its products to conform to the requirements of its OEM customers. This "design in" process is typically lengthy and expensive and there can be no assurance that the Company will be able to continue to meet the product speci-

fications of its OEM customers in a timely and adequate manner. See "Business — Sales and Marketing" and "— Customers."

Significant Customers. In Fiscal 1995, approximately 72% of the Company's net sales were to its top ten OEM customers, while approximately 23% and 11% of the Company's net sales in Fiscal 1995 were to two OEM customers, Marsh Company ("Marsh") and Foxjet, Inc. ("Foxjet"), respectively. For the three months ended December 31, 1995, approximately 80% of the Company's net sales were to its top ten OEM customers, and approximately 25% and 12% were to Marsh and Foxjet, respectively. A significant diminution in the sales to or loss of any of the Company's major customers would have a material adverse effect on the Company's results of operations. See "Business — Customers."

Concentration of Net Sales from Carton Coding. For Fiscal 1995 and the three months ended December 31, 1995, approximately 67% and 71%, respectively, of the Company's net sales were derived from carton coding and the Company anticipates that carton coding will continue to account for a substantial portion of the Company's total net sales. A reduction in demand for carton coding systems would have a material adverse effect on the Company's business, results of operations and financial condition. See "Business — Current Industry Applications."

Dependence on Patents and Proprietary Technology. The industrial printing industry places considerable importance on obtaining patent and trade secret protection for new technologies, products and processes, and the Company's success will depend, in part, on its ability to obtain and maintain patent protection for its products and manufacturing processes, preserve its trade secrets and operate without infringing the proprietary rights of third parties. In addition to the Company's own patent applications, the Company has an exclusive license from Dataproducts Corporation ("Datapro-

ducts") to Dataproducts' rights in certain patents relating to liquid inks and impulse ink jet printing (the "Dataproducts License") within the "industrial marking field" (as defined in the Dataproducts License). The technology used by the Company under the Dataproducts License is integral to the Company's impulse ink jet products. Several of the patents relating to this technology expire over the next six to nine years. Following such expiration, protection of the technology relating to such patents will be limited to the protections afforded by trade secret law, the Company's confidentiality agreements with employees, suppliers and customers, and the difficulty of reproducing the Company's complex processes.

The Company is conducting research and expects to seek additional patents in the future, but there can be no assurance as to its success or the timeliness in obtaining any such patents or as to the breadth or degree of protection which any such patents will afford the Company. The patent position of developers and manufacturers of ink jet technologies is often highly uncertain and usually involves complex legal and factual questions. There can be no assurance that patent applications relating to the Company's products or technology will result in patents being issued or that any such issued patents or the Company's agreements with its licensees or licensors will afford adequate protection to the Company or not be challenged as unenforceable or invalid, or not be infringed. Moreover, the Company could incur substantial costs in defending itself in suits brought against it or in prosecuting suits in which the Company may assert its patents or other proprietary rights against others. If the outcome of any such litigation is adverse to the Company, the Company's business, financial condition and results of operations could be adversely affected.

The Company also seeks to protect its proprietary technology, including technology which may not be patented nor patentable, in part by confidentiality agreements and, if applicable, inventors' rights agreements with its collaborators,

advisors, employees and consultants. There can be no assurance that these agreements will not be breached, that the Company will have adequate remedies for any breach, or that the Company's trade secrets will not otherwise be disclosed to, or discovered by, competitors. In addition, the Company may in the future be required to obtain licenses to patents or other proprietary rights of third parties. No assurance can be given that any licenses required under any such patents or proprietary rights would be made available on terms acceptable to the Company, if at all. If the Company does not obtain such licenses, it could encounter delays in product introductions while it attempts to design around such patents or other rights, or be unable to develop, manufacture or sell such products. See "Business — Engineering, Research and Development and Intellectual Property."

Dependence on Key Personnel. The Company's future success depends in large part on the continued service of its senior management and other key employees. The Company believes that the loss of its Chief Executive Officer or certain key personnel in its research and development department could have a material adverse effect on the Company's business, financial condition and results of operations. The Company is also dependent on its ability to continue to attract and retain additional qualified employees, particularly design, process and test engineers involved in the manufacture of existing products and the development of new products and processes. The competition for such skilled personnel is intense and the loss of key employees could have a material adverse effect on the Company's results of operations. The Company has historically had difficulty in attracting engineers and other qualified technical personnel in sufficient numbers to meet its target personnel levels. Although the Company's results of operations have not been materially and adversely affected by the difficulty in attracting such personnel, there can be no assurance that such difficulty will not materially and adversely affect the Company's results of

operations in the future. See "Business —Employees" and "Management."

Fluctuation in Revenues and Results of Operations. The Company's annual and quarterly operating results may fluctuate due to factors such as the timing of new product announcements and introductions by the Company and its competitors, market acceptance of new or enhanced versions of the Company's products, changes in product mix, changes in manufacturing costs or other expenses, competitive pricing pressures, the gain or loss of significant customers, increased research and development expenses and general economic conditions. In addition, it is possible that in some future periods the Company's results of operations, including gross margins, will be below the expectations of public market analysts and investors. In any such event, the market price of the Common Stock could be materially and adversely affected. The Company does not believe there is any significant seasonality in its net sales. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Certain Charges to be Incurred through Consummation of the Offering and Negative Stockholders' Equity. The Company anticipates incurring certain significant charges relating to the 1994 Acquisition from the beginning of fiscal year 1996 through the consummation of the Offering. Based upon a closing date of March 1, 1996 and the initial public offering price of $16 per share, the Company anticipates such charges to be an aggregate of $4.2 million, net of related income tax benefits, comprised of $2.1 million of recurring charges which will have been expensed through consummation of the Offering and will not recur thereafter and $2.1 million of non-recurring charges which will be expensed at the closing of the Offering.

Certain non-cash charges being eliminated in connection with the Offering are recurring charges related to the 1994 Acquisition and are expected to continue to be incurred dur-

ing fiscal year 1996 through the time the Offering is consummated. These fiscal year 1996 non-cash recurring charges consist principally of (i) $1.7 million of interest charges related to the NationsCredit Warrant and (ii) $443,000 of deferred compensation expense related to the Stockholders' Warrant. Subsequent to the closing of the Offering, no further charges to earnings will be incurred related to these items.

At the time of the Offering, the Company anticipates repaying the outstanding principal balance on the Credit Facility and repaying the Notes out of the net proceeds of the Offering. As a result, the Company anticipates that it will incur non-recurring charges to earnings for approximately $2.2 million of unamortized original issue discount relating to the Notes and approximately $907,000 of unamortized financing costs relating to the Credit Facility and the Notes. The Company also anticipates recognizing a charge of approximately $452,000, representing the unamortized portion of the cost of the Consulting Agreement as of the Offering date, which will be terminated at the time of the Offering. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview." Collectively, these items will result in non-recurring charges to earnings of approximately $2.1 million, net of related income tax benefits, at the time the Offering is consummated.

Charges to earnings, net of related income tax benefits, related to all of the matters described above were approximately $1.4 million during the first quarter of fiscal year 1996 (consisting of the quarterly portion of the recurring charges described above) and are expected to be approximately $2.8 million during the second quarter of fiscal year 1996 (consisting of the pro rata quarterly portion of the recurring charges, as well as the non-recurring charges which will be incurred upon consummation of the Offering as described above). See "Certain Transactions."

At December 31, 1995, the Company had negative stockholders' equity of approximately $2.0 million.

Risks Related to Potential Environmental Liability. The Company is subject to a wide range of federal and state laws and regulations relating to the environment. These laws generally regulate use of hazardous substances and the release of pollutants into the environment, may impose penalties for non-compliance and require responsible parties to undertake remediation of hazardous waste disposal sites. Although the Company believes it is in material compliance with all applicable environmental laws, there can be no assurance that all of the Company's operations comply in all respects with all such laws. The site of one of the Company's leased facilities was contaminated and may require remedial action. The United States Environmental Protection Agency has informed the Company that it will likely not address the premises under federal authority and that Connecticut regulations will govern the determination of whether remedial response actions are necessary. As of December 1995, the Connecticut Department of Environmental Protection had requested further information about the site conditions, which the Company provided. Since that time and through the date of this Prospectus, the Connecticut Department of Environmental Protection has not requested any additional information from the Company or indicated that any remedial response actions are required There can be no assurance, however, that such requests or indications will not be made in the future. The Company obtained an indemnification agreement in connection with the 1994 Acquisition with respect to costs and liabilities in excess of $350,000 related to such contamination up to a maximum of $4.0 million prior to June 24, 1996, and a maximum of $2.0 million thereafter. If the Company is found to be liable as a result of any such prior contamination at the site, there can be no assurance that such indemnification will be available or that, if available, it will be sufficient. See "Business — Facilities."

Control by Certain Stockholders. Upon completion of the Offering, the executive officers and directors of the Company and the current holders of the Company's capital stock will collectively own or control approximately 59.7% of the outstanding shares of Common Stock (approximately 53.2% if the Underwriters' over-allotment options are exercised in full). Accordingly, these persons will have the ability to control the Company's Board of Directors and, therefore, the business, policies and affairs of the Company. See "Principal and Selling Securityholders" and "Description of Capital Stock."

Risks Associated With International Operations. The Company markets and sells its products in certain international markets. For Fiscal 1995, approximately 20% and 10% of the Company's net sales were from Europe and the Far East, respectively. For the three months ended December 31, 1995, approximately 24% and 9% of the Company's net sales were from Europe and the Far East, respectively. The Company has established an office in Dublin, Ireland to support the European market and anticipates the opening of new offices in other international markets, such as the Far East. If net sales generated by foreign activities are not adequate to offset the expense of establishing and maintaining these foreign activities, the Company's business, financial condition and results of operations could be materially adversely affected. In addition, there are certain risks inherent in doing business internationally, such as changes in applicable laws and regulatory requirements, export and import restrictions, export controls relating to technology, tariffs and other trade barriers, less favorable intellectual property laws, difficulties in staffing and managing foreign operations, longer payment cycles, problems in collecting accounts receivable, political instability, fluctuations in currency exchange rates, expatriation controls and potential adverse tax consequences, which could adversely impact the success of the Company's international activities. There can be no assurance that one or

more of such factors will not have a material adverse effect on the Company's future international activities and, consequently, on the Company's business, financial condition and results of operations. See "Business — Business Strategy."

Anti-Takeover Effects of Certain Charter and By-law Provisions. The Company's Certificate of Incorporation (the "Certificate") and By-laws (the "By-laws") contain certain provisions relating to corporate governance and to the rights of shareholders. These provisions may be deemed to have a potential "anti-takeover" effect in that such provisions may delay, defer or prevent a change in control of the Company. The Certificate provides for the Board of Directors to be divided into two classes of directors serving staggered two-year terms. As a result, approximately one-half of the Board of Directors will be elected each year. In addition, the Certificate provides that shareholders may remove a director only for cause and only by the vote of the holders of two-thirds of the Common Stock of the Company. This provision, when coupled with the provision of the Certificate authorizing only the Board of Directors to fill vacant directorships, will preclude shareholders from removing incumbent directors without cause and simultaneously gaining control of the Board of Directors by filling the vacancies created by such removal with their own nominees, and will make more difficult, and therefore may discourage, a proxy contest to change control of the Company. These provisions of the Certificate may be changed only by the affirmative vote of the holders of eighty percent of the Common Stock of the Company entitled to vote on such matters at a meeting duly called for such purpose. The Certificate also provides that shareholder actions may not be taken by written consents.

The By-laws provide that special meetings of shareholders of the Company may be called only by the Board of Directors or, subject to certain notice and informational requirements, holders of 25% or more of the Company's outstanding Common Stock. The By-laws also provide that

shareholders seeking to bring business before an annual or special meeting of shareholders, or to nominate candidates for election as directors at an annual or special meeting of shareholders, must provide prior written notice thereof, as set forth in the By-laws. The By-laws may only be amended by the shareholders by the affirmative vote of at least two-thirds of the votes eligible to be cast, unless the Board of Directors has approved such amendment, in which case the affirmative vote of at least a majority of the votes eligible to be cast is required.

No Prior Market for Common Stock; Possible Volatility of Stock Price. Prior to the Offering, there has been no public market for the Common Stock, and there can be no assurance that an active trading market will develop or be sustained in the future or that the market price of the Common Stock will not decline below the initial public offering price. The initial public offering price of the Common Stock was determined by negotiations between the Company and the representatives of the Underwriters and may not be indicative of the market price of the Common Stock after the Offering. See "Underwriting" for a discussion of the factors to be considered in determining the initial public offering price. From time to time after the Offering, there may be significant volatility in the market price for the Common Stock. Quarterly and annual operating results of the Company, changes in general conditions in the economy, the financial markets, or the ink jet printing industry, or other developments affecting the Company or its competitors, could cause the market price of the Common Stock to fluctuate substantially. In addition, in recent years the stock market has experienced significant price and volume fluctuations. This volatility has affected the market prices of securities issued by many companies for reasons unrelated to their operating performance.

Shares Eligible for Future Sale; Registration Rights. Upon completion of the Offering, the Company will have a

total of 6,951,288 shares of Common Stock outstanding. Of these shares, the 3,000,000 shares of Common Stock offered hereby (3,450,000 shares if the Underwriters' over-allotment options are exercised in full) will be freely tradable without restriction or registration under the Securities Act of 1933, as amended (the "Securities Act") by persons other than "affiliates" of the Company, as defined in the Securities Act. The remaining 3,951,288 shares of Common Stock outstanding (3,501,288 shares if the Underwriters' over-allotment options are exercised in full) will be "restricted securities" as that term is defined by Rule 144 promulgated under the Securities Act ("Rule 144"). These restricted securities (the "Restricted Securities") were issued and sold by the Company in private transactions in reliance upon exemptions from registration under the Securities Act.

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated) who has beneficially owned restricted securities for at least two years, including persons who may be deemed "affiliates" of the Company, would be entitled to sell within any three-month period a number of shares that does not exceed the greater of one percent of the number of shares of Common Stock then outstanding (approximately 69,513 shares upon completion of the Offering) or the average weekly trading volume of the Common Stock during the four calendar weeks preceding the filing of a Form 144 with respect to such sale. Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements, and to the availability of current public information about the Company. In addition, a person who is not deemed to have been an affiliate of the Company at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least three years, would be entitled to sell such shares under Rule 144(k) without regard to the requirements described above.

Under Rule 144 (and subject to the conditions thereof), no Restricted Securities will become eligible for sale upon

completion of the Offering. The Company's executive officers and directors, the Selling Securityholders and the other current stockholders of the Company (who in the aggregate will hold all of the Restricted Securities upon completion of the Offering) have agreed that they will not, directly or indirectly, offer, sell, offer to sell, contract to sell, pledge, grant any option to purchase or otherwise sell or dispose (or announce any offer, sale, offer of sale, contract of sale, pledge, grant of any options to purchase or sale or disposition) of any shares of Common Stock or other capital stock of the Company, or any securities convertible into, or exercisable or exchangeable for, any shares of Common Stock or other capital stock of the Company without the prior written consent of Prudential Securities Incorporated, on behalf of the Underwriters, for a period of 180 days from the date of this Prospectus. In addition, various holders of Common Stock have demand and "piggy back" registration rights to require the Company to file one or more registration statements to effect the registration under the Securities Act of the shares of Common Stock held by such holders, which would permit such holders to resell such shares without complying with Rule 144. Registration and sale of such shares could have an adverse effect on the trading price of the Common Stock. See "Underwriting" and "Certain Transactions."

Prior to the Offering, there has been no public market for the Common Stock and no predictions can be made of the effect, if any, that the sale or availability for sale of shares of additional Common Stock will have on the market price of the Common Stock. Nevertheless, sales of substantial amounts of such shares in the public market, or the perception that such sales could occur, could materially and adversely affect the market price of the Common Stock and could impair the Company's future ability to raise capital through an offering of its equity securities. See "Shares Eligible for Future Sale."

Dilution. Purchasers of the shares of Common Stock offered hereby will experience immediate and substantial dilution in the pro forma net tangible book value per share of the Common Stock of $13.09 from the initial public offering price of $16.00 per share, and may incur additional substantial dilution upon the exercise of outstanding stock options and warrants by holders thereof. See "Dilution."

THE COMPANY

The Company designs, manufactures and markets impulse ink jet subsystems, including printheads, inks and other consumables and related components for the industrial market. The Company's proprietary products are used for a variety of printing applications which require high speed, good print quality, durable equipment and the ability to change the printed text or pattern frequently. The Company's Ultrajet printing subsystems are marketed worldwide, primarily through over 70 OEM customers which integrate them into computer-controlled, application-specific products that are then sold to end-users. The Company's contracts with its OEM customers also provide for ongoing sales by the Company of consumables, consisting principally of inks and printing system components, to the end-users.

The Predecessor was founded in 1989 as Trident, Inc. Shortly after its incorporation, a majority interest in the Predecessor was purchased by JWA through JWA's direct subsidiary, Porelon. In December 1992, Porelon purchased the remaining minority interests in the Predecessor and the Predecessor became a wholly-owned subsidiary of Porelon.

On June 24, 1994, the Company acquired all of the capital stock of the Predecessor for $19.9 million in the 1994 Acquisition. Of this amount, approximately $4.6 million was attributable to tangible assets, approximately $13.9 million represented the excess of the purchase price over the fair value of net assets acquired and approximately $1.4 million was attributable to other intangible assets. The 1994 Acquisi-

tion and related transaction costs of approximately $1.7 million were funded through (i) $14.6 million in senior secured indebtedness from NationsCredit, (ii) $1.9 million in proceeds from the issuance of an aggregate of $5.0 million in principal amount of the Notes to investment funds associated with TA Associates, Inc., a private equity firm based in Boston, Massachusetts (the "TA Investors") and to Chestnut III Limited Partnership and Chestnut Capital International III L.P. (collectively with Chestnut III Limited Partnership, the "Chestnut Investors"), (iii) $3.1 million of Convertible Preferred Stock issued to the TA Investors and the Chestnut Investors and (iv) $1.5 million of Common Stock issued to (A) certain individuals and entities associated with Brean Murray, Foster Securities, Inc., (the "Brean Murray Investors"), (B) certain other associated individuals and entities (the "West Point Investors") and (C) certain members of the Company's management (the "Management Investors"). See "Certain Transactions — The 1994 Acquisition."

In connection with the financing of the 1994 Acquisition, the NationsCredit Warrant was issued to NationsCredit to purchase up to 653,310 shares of Common Stock, subject to reduction to 418,118 shares, at an exercise price of $1.00 per share. Concurrently, the Brean Murray Investors, the West Point Investors and the Management Investors were issued the Stockholders' Warrant to purchase up to the number of shares of Common Stock, if any, by which the NationsCredit Warrant is reduced. In connection with the Offering, the Company anticipates that the NationsCredit Warrant will be reduced to 418,118 shares of Common Stock and that such shares will be sold in the Offering. Accordingly, the Stockholders' Warrant will become exercisable for 235,192 shares of Common Stock upon consummation of the Offering.

As used herein, unless the context requires otherwise, the term "Company" includes Trident International, Inc., and all of its subsidiaries. In January 1996, the Company changed its

name from Trident Holding Corp. to Trident International, Inc. Trident®, Ultrajet™, JetWrite™, HiDef™, VersaPrint™, FastDri™, Post-Brite™, AllWrite™, as well as the Company logos, are trademarks of the Company. This Prospectus also contains trademarks of companies other than Trident International, Inc. The Company's executive offices are located at 1114 Federal Road, Brookfield, Connecticut 06804, and its telephone number is (203) 740-9333.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the 1,900,000 shares of Common Stock offered by the Company hereby, at the initial public offering price of $16.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company, are estimated to be approximately $27.5 million.

The Company intends to use approximately $10.8 million of the net proceeds from the Offering to repay in full the outstanding indebtedness under the Credit Facility. The Credit Facility is comprised of two loans evidenced by two notes. The first note, in the original principal amount of $10.5 million, matures on July 1, 2001 and bears interest at a floating rate which was 10.36% per annum at December 31, 1995. At December 31, 1995, $9.4 million was outstanding on the first note. The second note, in the original principal amount of $3.0 million, matures (depending upon the prepayment of the first note) no later than July 1, 2001, and bears interest at a floating rate which was 12.36% per annum at December 31, 1995. At December 31, 1995, $3.0 million was outstanding on the second note. The Company intends to pay an aggregate of approximately $1.7 million under the Credit Facility between January 1, 1996 and the consummation of the Offering. The Credit Facility is required to be paid in full upon consummation of the Offering, and will terminate upon such payment. In addition, approximately $4.5 million of the net proceeds from the Offering will be used to retire all of the

$5.0 million in principal amount of the Notes issued by the Company for $1.9 million in connection with the 1994 Acquisition at 90% of their maturity value. The Notes, which are held by certain of the Selling Securityholders, were issued with an original issue discount of $3.1 million, bear an effective yield to maturity of 11.6% and mature on September 30, 2002. The Notes are also required to be paid in full by the Company upon consummation of the Offering.

The Company expects to use the remaining net proceeds from the Offering for general corporate purposes, including possible acquisitions, such as the purchase or license of new technologies, working capital, purchase of equipment and expansion of facilities, The Company evaluates potential acquisitions from time to time and believes such transactions may offer an attractive method for the Company to expand its business. However, the Company presently has no pending commitments or understandings to enter into any such transactions. Pending application of the net proceeds from the Offering for the foregoing purposes, the Company intends to invest the net proceeds in short-term, interest-bearing securities and cash equivalents.

The Company will not receive any proceeds from the sale of Common Stock by the Selling Securityholders, including the Common Stock underlying the NationsCredit Warrant, except that the Company will receive the $418,118 exercise price upon exercise of the NationsCredit Warrant. See "Principal and Selling Securityholders" and "Certain Transactions."

DIVIDEND POLICY

The Company has never declared or paid cash dividends on its Common Stock. The Company currently intends to retain its earnings for future growth and, therefore, does not anticipate declaring or paying any cash dividends in the foreseeable future.

CAPITALIZATION

The following table sets forth the historical capitalization of the Company at December 31, 1995 and as adjusted to give effect to (i) the conversion of all of the 307,317 shares of Convertible Preferred Stock into 3,073,170 shares of Common Stock, (ii) the issuance of 418,118 shares of Common Stock upon the exercise in full of the NationsCredit Warrant at $1.00 per share, and (iii) the receipt and application by the Company of the estimated net proceeds from the sale of 1,900,000 shares of Common Stock offered by the Company hereby at the initial public offering price of $16.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses.

	December 31, 1995	
	Actual	Pro Forma As Adjusted
	(in thousands)	
Debt		
Short-term	$ 2,683	$ -
Long-term	12,052	--
Total debt	14,735	
Redeemable common stock warrants	5,703	
Series A convertible participating preferred stock, $.01 par value, 307,317 shares authorized, issued and outstanding at December 31, 1995, no shares authorized, issued and outstanding pro forma as adjusted	3,360	
Stockholders' equity[1]		
Preferred stock, $.01 par value, no shares authorized at December 31, 1995, 5,000,000 shares authorized and no shares issued and outstanding pro forma as adjusted		
Common stock, $.01 par value, 7,000,000 shares authorized, 1,560,000 shares issued and outstanding at December 31, 1995, 30,000,000 shares authorized, 6,951,288 shares issued and outstanding pro forma as adjusted	16	69
Additional paid-in capital	2,786	39,735
Deferred compensation	(147)	
Deferred offering costs[2]	(509)	
Retained earnings (deficit)	(4,125)	(6,414)
Total stockholders' equity	(1,979)	33,391
Total capitalization	$21,819	$33,391

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(1) Does not include (i) 113,000 shares of Common Stock issuable upon exercise of stock options outstanding under the Company's Amended and Restated 1994 Stock Option and Grant Plan (the "1994 Stock Option Plan") as of December 31, 1995 or (ii) 215,192 shares of Common Stock currently issuable upon exercise of the Stockholders' Warrant. See "Certain Transactions."

(2) As of December 31, 1995, the Company had incurred approximately $509,000 of costs in connection with the Offering. These costs have been charged to deferred offering costs and recorded as a reduction of stockholders' equity in the consolidated balance sheets contained elsewhere in this Prospectus.

DILUTION

Purchasers of the Common Stock offered hereby will experience immediate and substantial dilution in the net tangible equity per share of Common Stock. The pro forma net tangible equity (deficit) of the Company as of December 31, 1995 was approximately ($7.1 million) or ($1.40) per share of Common Stock. "Pro forma net tangible equity (deficit) per share" represents the amount of total tangible assets less total liabilities divided by the number of shares of Common Stock outstanding, as adjusted to give effect as of December 31, 1995 to (i) the issuance of 3,073,170 shares of Common Stock upon the conversion of all outstanding shares of the Convertible Preferred Stock and (ii) the issuance of 418,118 shares of Common Stock upon the exercise in full of the NationsCredit Warrant. After giving effect to the receipt by the Company of the net proceeds from the sale of the 1,900,000 shares of Common Stock offered by the Company hereby (based upon the initial public offering price of $16.00 per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company) and after the recognition of certain charges relating to the Offering, the pro forma net tangible book value of the Company after the Offering as of December 31, 1995 would have been approximately $20.2 million or $2.91 per share. This represents an immediate increase in pro forma net tangible book value of $4.31 per share to existing stockholders and an immediate dilution of $13.09 per share to new investors. The following table illustrates this per share dilution:

Initial public offering price per share		$16.00
Pro forma net tangible equity (deficit) per share before the Offering	$(1.40)	
Increase per share attributable to new investors	4.31	
Pro forma net tangible equity per share after the Offering		2.91
Dilution per share to new investors		$13.09

The following table summarizes on a pro forma basis, as of December 31, 1995, the differences between existing

stockholders and purchasers of shares in the Offering (at the initial public offering price of $16.00 per share) with respect to the number of shares of Common Stock purchased from the Company, the total consideration paid and the average price per share paid:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders(1)	3,951,288	72.7%	$ 3,951,288	14.2%	$ 1.00
New investors(1)	3,000,000	27.3	30,000,000	85.8	16.00
Total	6,951,288	100.0%	$33,951,288	100.0%	

(1) On a pro forma basis as of December 31, 1995, sales by Selling Securityholders in the Offering will reduce the number of shares held by existing stockholders to 3,951,288 or approximately 56.8% of the total outstanding shares (3,501,288 shares or approximately 50.4% of the total outstanding shares if the Underwriters' over-allotment options are exercised in full) and will increase the number of shares held by new investors to 3,000,000 or approximately 43.2% of the total outstanding shares (3,450,000 shares or approximately 49.6% of the total outstanding shares if the Underwriters' over-allotment options are exercised in full) after the Offering.

The foregoing computations assume no exercise of outstanding stock options after December 31, 1995 and no exercise of the Stockholders' Warrant after that date. As of December 31, 1995, 113,000 shares of Common Stock were subject to outstanding options under the 1994 Stock Option Plan at a weighted average exercise price of approximately $3.89 per share and 235,192 shares of Common Stock will be issuable upon consummation of the Offering at an exercise price of $1.00 per share under the Stockholders' Warrant. In the event that these options and the Stockholders' Warrant are exercised, the pro forma net tangible equity per share after the Offering will be $2.87 and dilution per share to new investors in the Offering will be $13.13. The Company anticipates granting options to purchase up to an aggregate of 30,000 shares of Common Stock to certain employees upon commencement of the Offering. Accordingly, options for an additional 857,000 shares of Common Stock will be available for issuance under the 1994 Stock Option Plan upon consummation of the Offering. See "Capitalization," "Management — Stock Option Plan," "Description of Capital Stock" and Note 10 of Notes to Consolidated Financial Statements.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data have been derived from the consolidated financial statements of the Company and its Predecessor. The financial statements of the Predecessor as of and for the periods ended September 30, 1993 at June 23, 1994 and the consolidated financial statements of the Company as of and for the periods ended September 30, 1994 and 1995 have been audited by Arthur Andersen LLP, independent public accountants. The information as of and for the periods ended December 31, 1991 and 1992 and as of December 31, 1995 and for the three months ended December 31. 1994 and 1995 have been derived from unaudited financial statements of the Company which have been prepared on the same basis as the audits financial statements and which, in the opinion of management, include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of such data. The results of operations for the three months ended December 31, 1995 are not necessarily indicative of the results for the full year. The combined statement of operations data for 1994 combines the audited results of operations of the Predecessor for the period from October 1, 1993 to June 23, 1994 and of the Company for the period from June 24, 1994 to September 30, 1994 and does not purport to represent the results of operations as if the 199[ ] Acquisition occurred on September 30, 1993. The financial data set forth below should be read in conjunction with "Management's Discussion and Analysts of Financial Condition and Results of Operations," the consolidated financial statements of the Company and notes thereto.

	Predecessor			Company	Pro Forma Combined(1)	Company	
	For the 12 months ended December 31,	For the 9 months ended Sept. 30,	For the period from Oct. 1, 1993 to June 23, 1994	For the period from June 24, 1994 to Sept. 30, 1994	For the 12 months ended Sept. 30, 1994	For the first year ended Sept. 30, 1995	Three months ended December 31
	1991	1992	1993				1994	1995
	(In thousands, except share data)							
Consolidated Statement of Operations Data:								
Net sales	$6,405	$8,251	$7,617	$8,792	$3,701	$12,493	$17,330	$ 3,436	$ 6,6
Cost of sales	3,204	3,628	3,157	4,008	1,845	5,853	6,504	1,440	2,3
Gross profit	3,201	4,623	4,460	4,784	1,856	6,640	10,726	1,996	3,3
Operating expenses:									
Marketing and selling	539	668	516	512	189	701	912	198	2
Research and development	798	890	623	747	331	1,078	2,317	267	4
General and administrative	421	670	587	763	374	1,137	1,580	339	5
Amortization of intangibles	375	233	252	267	219	486	802	200	2
Amortization of deferred compensation	—	—	—	—	—	—	1,183	295	2
Total operating expenses	2,133	2,261	1,940	2,289	1,113	3,402	3,794	1,299	1,3
Operating income	1,068	2,362	2,280	2,495	743	3,238	4,932	697	1,9
Interest (income) expense, net	149	16	(10)	(8)	690	682	1,845	464	4
Redeemable warrant interest charge	—	—	—	—	—	—	4,561	1,140	1,1
Income (loss) before income taxes	919	2,346	2,290	2,503	253	2,756	(1,474)	(907)	3
Provision for income taxes	234	864	954	1,033	247	1,280	1,965	273	7
Net income (loss)	$ 685	$1,482	$1,336	$1,470	$ 6	$ 1,476	$(3,439)	$(1,180)	$ (4
Pro Forma Data:(2)									
Operating income							$ 6,648		$ 2,3
Interest income							54		
Provision for income taxes							(2,880)		(1,0
Net income							$ 3,822		$ 1,3
Net income per common share							$ 0.50		$ 0.1
Weighted average common shares							7,250,869		7,257,2

	Predecessor			Company		
	December 31,		September 30,	September 30,		December 31,
	1991	1992	1993	1994	1995	1995
	(In thousands)					
Consolidated Balance Sheet Data:						
Working capital	$ 609	$ 2,300	$ 1,949	$ 2,103	$ 3,232	$ 3,634
Total assets	4,145	11,875	11,736	28,967	23,133	24,653
Total long-term debt	1,500	—	—	14,738	12,361	12,052
Redeemable common stock warrants	—	—	—	—	4,361	5,703
Redeemable preferred stock	—	—	—	3,123	3,311	3,360
Stockholders' equity (deficit)	809	10,611	10,389	1,972	(1,311)	(1,979)

(1) The pro forma combined statement of operations data for the 12 months ended September 30, 1994, represents the Predecessor's results from October 1, 199 through June 23, 1994, and the Company's results from inception (June 24, 1994) through September 30, 1994. This information is presented to provide mea meaningful period to period comparisons and does not purport to represent the results of operations as if the 1994 Acquisition occurred on September 30, 1994

(2) See "Pro Forma Condensed Consolidated Financial Statements" for a complete description of the Pro Forma adjustments.

PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Overview

Upon consummation of the Offering, the Company anticipates that the following events will occur: (i) all of the 307,317 outstanding shares of Convertible Preferred Stock will convert into 3,073,170 shares of Common Stock; (ii) 418,118 shares of Common Stock will be issued upon exercise in full of the NationsCredit Warrant and the Company will receive $418,118 representing the exercise price for the NationsCredit Warrant; (iii) the Company will receive net proceeds of $27.5 million from the issuance of 1,900,000 shares of Common Stock at the initial public offering price of $16.00 per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company, (iv) all of the Company's senior and subordinated indebtedness for borrowed money will be repaid in full; and (v) all of JWA's obligations under the Consulting Agreement entered into in connection with the 1994 Acquisition will have been fulfilled and, accordingly, the remaining unamortized balance of the Consulting Agreement will be charged to earnings (collectively, the "Pro Forma Events").

The Pro Forma Consolidated Statement of Operations Data give effect to the Pro Forma Events as if they had occurred on September 30, 1994. The Pro Forma Condensed Consolidated Balance Sheet Data give effect to the Pro Forma Events as if they had occurred on December 31, 1995. The pro forma financial statements presented below do not purport to present the financial position or results of operations of the Company had the transactions assumed therein occurred on the dates indicated, nor are they necessarily indicative of the financial conditions or results of operations which may be expected to occur in the future.

	Year Ended September 30, 1995			Three Months Ended December 31, 1995		
	Actual	Adjustments	Pro Forma	Actual	Adjustments	Pro Forma
	(In thousands, except share data)			(In thousands, except share data)		
Net sales	$ 17,330		$ 17,330	$ 6,047		$ 6,047
Cost of sales	6,604		6,604	2,347		2,347
Gross profit	10,726		10,726	3,700		3,700
Operating expenses:						
Marketing and selling	912		912	265		265
Research and development	1,317		1,317	447		447
General and administrative	1,580	$ (333)(1)	1,247	533	$ (83)(1)	450
Amortization of intangibles	802		802	200		200
Amortization of deferred compensation	1,183	(1,183)(2)	—	296	(296)(2)	—
Total operating expenses	5,794		4,278	1,741		1,362
Operating income	4,932		6,448	1,959		2,338
Interest (income) expense	1,845	(1,899)(3)	(54)	428	(468)(3)	(40)
Redeemable warrant interest charge	4,561	(4,561)(4)	—	1,142	(1,142)(4)	—
Income (loss) before taxes	(1,474)		6,502	389		2,378
Provision for income tax	1,965	915 (5)	2,880	794	226 (5)	1,020
Net income (loss)	$ (3,439)	$ 7,061	$ 3,622	$ (405)	$1,763	$ 1,358
Net income (loss) per share	$ (2.26)(6)		$ 0.50(7)	$ (0.28)(6)		$ 0.19(7)
Weighted average shares outstanding	1,603,562 (6)		7,250,069(7)	1,608,000 (6)		7,257,281(7)

(1) Represents the elimination of amortization expense relating to the Consulting Agreement.

(2) Represents the elimination of deferred compensation expense relating to a portion of the Stockholders' Warrant, which is being amortized through the consummation of the Offering.

(3) Represents the elimination of interest expense and certain deferred financing costs resulting from the repayment of the Credit Facility and the Notes.

(4) Represents the elimination of redeemable warrant interest charges relating to the NationsCredit Warrant which are being amortized through the consummation of the Offering.

(5) Represents the related income tax effect of the pro forma adjustments utilizing an effective income tax rate of 41%.

(6) See "Net income (loss) per common share" of Note 2 of Notes to Consolidated Financial Statements for additional information.

(7) Based upon 1,858,781 and 1,865,993 pro forma weighted average common and common equivalent shares outstanding at September 30, 1995 and December 31, 1995, respectively, as increased for 3,073,170 shares of Common Stock issued upon the conversion of all outstanding shares of Convertible Preferred Stock, 418,118 shares of Common Stock issued upon the exercise of the NationsCredit Warrant and 1,900,000 shares of Common Stock issued in connection with the Offering.

Pro Forma Consolidated Statement of Operations Data

The Company anticipates that certain significant ongoing charges to operations relating to the 1994 Acquisition will be eliminated upon the consummation of the Offering. The pro forma consolidated statement of operations data set forth below reflect the elimination of $7.1 and $1.8 million of such charges, which were incurred during Fiscal 1995 and the three months ended December 31, 1995, respectively, as described in footnotes (1) through (7) below.

Pro Forma Condensed Consolidated Balance Sheet Data

In connection with the Pro Forma Events, the Company will incur non-recurring charges to earnings upon consummation of the Offering consisting of (i) approximately $2.2 million relating to the cost of prepayment of the Notes in advance of their September 30, 2002 maturity; (ii) $933,000 relating to the write-off of the deferred financing costs related to the Credit Facility and the Notes prior to maturity; and (iii) $494,000 relating to the write-of of the unamortized balance of the Consulting Agreement.

	As of December 31, 1995		
	Actual	Adjustments (In thousands)	Pro Forma
ASSETS			
Current assets:			
Cash and cash equivalents	$ 3,910	$11,117 (1)	$15,027
Accounts receivable	3,527		3,527
Inventories	1,173		1,173
Refundable income taxes	0	860 (2)	860
Deferred income taxes	411		411
Other current assets	43		43
Total current assets	9,064		21,041
Leasehold improvements and equipment, net	1,015		1,015
Intangible assets, net of accumulated amortization	14,574	(1,427)(3)	13,147
	$24,653	$10,550	$35,203
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Current portion of long-term debt	$ 2,683	$(2,683)(4)	$ —
Accounts payable	1,196	(394)(5)	802
Other accrued liabilities	903		903
Income taxes payable	628	(628)(2)	—
Total current liabilities	5,410		1,705
Long-term debt, less current portion included above	12,052	(12,052)(6)	—
Deferred income taxes	107		107
Redeemable common stock warrants	5,703	(5,703)(7)	—
Redeemable convertible preferred stock	3,360	(3,360)(8)	—
Stockholders' equity (deficit)	(1,979)	35,370 (9)	33,391
	$24,653	$10,550	$35,203

(1) Represents (i) the receipt of $27.5 million in net proceeds by the Company from the sale of 1,900,000 shares of Common Stock offered hereby (based upon the initial public offering price of $16.00 per share and after deducting the underwriting discounts and commissions and estimated offering expenses payable by the Company), (ii) the repayment of approximately $12.4 million outstanding under the Credit Facility and $4.5 million under the Notes, and (iii) receipt of the $418,118 exercise price payable under the NationsCredit Warrant in connection with the issuance of 418,118 shares of Common Stock thereunder

(2) Represents the income tax, benefits resulting from the cost associated with prepayment of the Notes and the write-off of the unamortized costs described in (3) below, utilizing an effective income rate of 41%

(3) Represents the write-off of certain unamortized deferred financing costs relating to the Credit Facility and the Notes and the Consulting Agreement

(4) Represents the repayment of the current portion outstanding under the Credit Facility

(5) Represents the payment of offering costs included in accounts payable at December 31, 1995

(6) Represents the repayment of the long-term portion outstanding under the Credit Facility and the repayment in full of the Notes

(7) Represents the write-off of redeemable warrants financing charges relating to the NationsCredit Warrant

(8) Reflects the conversion of 307,317 shares of Convertible Preferred Stock into 3,073,170 shares of Common Stock

(9) Represents the increase in stockholders' equity attributable to (i) $27.5 million in net proceeds received by the Company from the sale of 1,900,000 shares of Common Stock offered hereby, (ii) $418,118 exercise price received by the Company upon exercise of the NationsCredit Warrant, (iii) the conversion of 307,317 shares of Convertible Preferred Stock into 3,073,170 shares of Common Stock and (iv) net reductions in stockholders' equity attributable to the items discussed in footnotes (2) and (3) above

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the results of operations and financial condition of the Company should be read in conjunction with the Company's consolidated financial statements and notes thereto included elsewhere in this Prospectus.

Overview

The Company designs, manufactures and sells piezoelectric impulse ink jet subsystems, including printheads, inks and other consumables and related components, principally to OEMs who integrate the products into industrial printing systems which are then sold to end-users. The majority of the Company's net sales are derived from OEMs who sell products for carton coding applications. The Company began to focus on these applications in 1993. The introduction of new printheads and the Company's VersaPrint brand of ink at that time, both of which are targeted for carton coding applications, triggered relatively rapid growth in the Company's sales volume. Prior to focusing on carton coding, the Company sold its products principally to OEM customers whose products were used in applications involving the coding of checks.

The Predecessor was founded in 1989 as Trident, Inc. Shortly after its incorporation, a majority interest in the Predecessor was purchased by JWA through JWA's direct subsidiary, Porelon. At that time, the Predecessor also obtained the Dataproducts License from Dataproducts, which gave the Predecessor exclusive rights to a series of liquid ink jet technology patents for use in the "industrial marling field." The technology covered by the Dataproducts License is at the core of the Company's current line of industrial printing subsystems. In December 1992, Porelon purchased the remaining minority interests in the Predecessor and the Predecessor became a wholly-owned subsidiary of Porelon.

On June 24, 1994, the Company acquired all of the capital stock of the Predecessor in the 1994 Acquisition. The aggregate cash consideration paid by the Company in the 1994 Acquisition was approximately $19.9 million, including $1.0 million for the Consulting Agreement. The 1994 Acquisition has been accounted for as a purchase and, accordingly, the total consideration has been allocated to the assets acquired and liabilities assumed based on their estimated fair value at the date of the 1994 Acquisition. The excess of the purchase price over the fair value of the net assets acquired ($13.9 million) is being amortized over 20 years. Periodically, the Company evaluates the realizability of this asset based upon expectations of undiscounted cash flows and operating income. Based upon its most recent analysis, the Company believes that no impairment of the current net book value of this asset exists. The $1.0 million payment made by the Company under the Consulting Agreement with JWA is being amortized over the three year term of the agreement. The services provided by JWA under the Consulting Agreement largely relate to transition services in connection with the establishment of stand-alone operations and assistance in preparation for an initial public offering. Accordingly, the Company intends to write off the unamortized balance attributable to the Consulting Agreement upon consummation of the Offering. Other long-term assets acquired in the 1994 Acquisition are being depreciated over their respective useful lives of 5 to 10 years. See "Note 1 of Notes to Consolidated Financial Statements."

Upon consummation of the Offering, the Company anticipates that it will expense approximately $2.2 million of unamortized original issue discount upon prepayment of the Notes, approximately $907,000 of unamortized financing costs relating to the Credit Facility and approximately $452,000 representing the unamortized portion of the cost of the Consulting Agreement. These charges will result in a

charge to earnings of approximately $2.1 million, net of related income tax benefits.

Results of Operations

The following table presents, for the periods indicated, the percentage relationship that certain statement of operations items bear to net sales.

	Predecessor	Pro Forma Combined	Company		
	For the 9 Months Dated September 30,	For the 12 Months Ended September 30,	For the Fiscal Year Ended September 30,	For the 3 Months Ended December 31	
	1993	1994	1995	1994	1995
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	42.6	46.9	38.1	41.9	38.8
Gross profit	57.4	53.1	61.9	58.1	61.2
Operating Expenses					
Marketing and selling	7.0	5.6	5.3	5.8	4.4
Research and development	8.4	8.6	7.6	7.8	7.4
General and administrative	7.9	9.1	9.1	9.0	8.8
Amortization of intangibles	3.4	3.9	4.6	5.8	3.3
Amortization of deferred compensation		—	6.8	8.6	4.9
Total operating expenses	26.7	27.2	33.4	37.8	28.8
Operating income	30.7	25.9	28.5	20.3	32.4
Interest (income) expense, net	(0.2)	3.9	10.7	13.5	7.1
Redeemable warrant interest charge			26.3	33.2	18.9
Income (loss) before income taxes	30.9	22.0	(8.3)	(26.4)	6.4
Provision for income taxes	12.9	10.2	11.3	7.9	13.1
Net Income (loss)	18.0%	11.8%	(19.8)%	(34.3)%	(6.7)%

Three Months Ended December 31, 1995 Compared to Three Months Ended December 31, 1994.

Net Sales. Net sales increased $2.6 million, or 76%, to $6.0 mullion for the three months ended December 31, 1995 from $3.4 million for the three months ended December 31, 1994. Net sales of printheads increased by approximately $1.6 million in the three months ended December 31, 1995 due to a 62% increase in printhead unit sales and a 7.7% increase in average selling price per printhead unit. The average selling price per printhead unit increased during calendar year 1995 as a larger proportion of higher priced newer models for carton coding applications were sold. Sales of ink products increased 96% in the three months ended December 31, 1995 as compared to the same quarter a year ago due to the expanding installed base of printheads. Net sales to inter-

national customers increased by $1.0 million, or 98%, for the three months ended December 31, 1995 as compared to the three months ended December 31, 1994. Because of the size of the carton coding market and the relatively small market penetration achieved to date, the Company believes that it can continue to sell printheads into its principal market and expand its installed base of printheads. There can, however, be no assurance that such sales and expansion will experience continued growth at similar rates or not be limited or otherwise adversely affected by competition, emerging or alternative technologies, shifts in customer demands or other factors.

Gross Profit. Gross profit increased $1.7 million, or 85%, to $3.7 million for the three months ended December 31, 1995 from $2.0 million for the three months ended December 31, 1994. Gross profit as a percentage of net sales increased from 58.1% for the three months ended December 31, 1994 to 61.2% for the three months ended December 31, 1995. The increase in gross profit as a percentage of net sales was due to the higher printhead average selling prices as well as lower average printhead costs. The increase in gross profit was offset in part by an increase in the Company's warranty reserve which was adjusted to reflect a revised estimate of potential product repair costs, as well as an overall increase in the installed base of printheads. The January 1995 implementation of work cell and just-in-time concepts in the printhead production process continued to improve production yields and efficiencies resulting in average cost reductions.

Marketing and Selling Expenses. Marketing and selling expenses increased $67,000, or 34%, to $265,000 for the three months ended December 31, 1995 from $198,000 for the three months ended December 31, 1994 due to the addition of sales personnel. As a percentage of net sales, however, these expenses decreased to 4.4% for the three months ended December 31, 1995 from 5.8% for the three months

ended December 31, 1994 due to the increase in net sales. Because of its OEM customer base, the Company can effectively manage the marketing and selling function with a relatively small organization. Employee compensation accounts for the majority of these expenses and sales commissions are a relatively small part of overall compensation. As a result of these factors, marketing and selling expenses do not vary in direct proportion to sales volume. but tend to increase as personnel is added at the discretion of management:

Research and Development Expenses. Research, and development expenses increased $180,000. or 67%, to $447,000 for the three months ended December 31, 1995 from $267,000 for the three months ended December 31, 1994 due principally to the addition of engineering personnel as well as increases in research project materials and supplies. As a percentage of net sales, however, these expenses decreased to 7.4% for the three months ended December 31, 1995 from 7.8% for the three months ended December 31, 1994 due to the increase in net sales. The Company's product research and development groups work in teams on engineering development programs to design and develop new products and enhancements to existing products.

General and Administrative Expenses. General and administrative expenses increased $194,000, or 58%, to $533,000 for the three months ended December 31, 1995 from $339,000 for the three months ended December 31, 1994 due principally to the addition of accounting and administrative personnel as well as increases in recruiting fees. As a percentage of net sales, however, these expenses decreased to 8.8% for the three months ended December 31, 1995 from 9.9% for the three months ended December 31, 1994 due to the increase in net sales.

Amortization of Intangibles and Amortization of Deferred Compensation. The amortization amounts for intangibles and deferred compensation of $200,000 and $295,000, respec-

tively, did not vary materially in amount for the three months ended December 31, 1995 as compared to the three months ended December 31, 1994. A more detailed discussion of these expenses is found in the section titled "Fiscal 1995 Compared to Combined 1994."

Interest (Income) Expense, Net. Interest (income) expense, net decreased $36,000, or 8%, to $428,000 for the three months ended December 31, 1995 from $464,000 for the three months ended December 31, 1994 due to the increase in interest income on higher cash balances generated by cash flow from operations.

Redeemable Warrant Interest Charges. Redeemable warrant interest charges of $1.1 million did not vary materially in amount for the three months ended December 31, 1995 as compared to the three months ended December 31, 1994. This expense is associated with the accretion in value of the NationsCredit Warrant (See Note 10 of Notes to Consolidated Financial Statements):

Fiscal 1995 Compared to Combined 1994.

For comparison purposes, Combined 1994 represents combined data of the Predecessor for the period from October 1, 1993 to June 23, 1994, the date of the 1994 Acquisition, and of the Company for the period from June 24, 1994 to September 30, 1994. This information is presented to provide more meaningful period to period comparisons.

Net Sales. Net sales increased $4.8 million, or 38%, to $17.3 million in Fiscal 1995 from $12.5 million in Combined 1994. Approximately $2.5 million of the increase in net sales was due to higher printhead unit volumes, particularly to carton coding customers, and a 7.4% increase in average selling price per printhead unit. The introduction of the Ultrajet 256/32 printhead and a printhead model for the AllWrite ink, as well as increased sales of existing models accounted for the Fiscal 1995 printhead unit volume increase. The increase

in average selling price per printhead unit in Fiscal 1995 was attributable to demands from carton coding OEMs for higher priced, newer model printheads such as the Ultrajet 192/32 and Ultrajet 256/32 with improved print height capabilities. The remaining increase in net sales in Fiscal 1995 was attributable to increased unit volumes of ink as the installed base of printheads expanded during the year. Net sales to international customers increased by $1.6 million, or 46%, in Fiscal 1995.

Gross Profit. Gross profit increased $4.1 million, or 62%, to $10.7 million in Fiscal 1995 from $6.6 mullion in Combined 1994. Gross profit as a percentage of net sales increased from 53.1% in Combined 1994 to 61.9% in Fiscal 1995. The increase in gross profit as a percentage of net sales was due principally to increased prices on the Company's printhead products. Lower printhead costs also contributed to the margin improvement in Fiscal 1995. Implementation of work cell and just-in-time concepts in the printhead production process improved production yields and efficiencies resulting in average cost reductions as compared to Combined 1994. Gross profit in Combined 1994 included a $362,000 charge to cost of sales, equivalent to 2.9% of net sales, for the inventory step-up to fair market value recorded in connection with the 1994 Acquisition.

Marketing and Selling Expenses. Marketing and selling expenses increased $211,000, or 30%, to $912,000 in Fiscal 1995 from $701,000 in Combined 1994, but decreased as a percentage of net sales to 5.3% in Fiscal 1995 from 5.6% in Combined 1994 as a result of increased net sales.

Research and Development Expenses. Research and development expenses increased $239,000, or 22%, to $1.3 million in Fiscal 1995 from $1.1 million in Combined 1994, but decreased as a percentage of sales to 7.6% in Fiscal 1995 from 8.6% in Combined 1994 due to the increase in net sales. The Company expects to increase engineering and research

and development spending significantly in fiscal year 1996 to develop new technologies and products.

General and Administrative Expenses. General and administrative expenses increased $443,000, or 39%, to $1.6 million in Fiscal 1995 from $1.1 million in Combined 1994, but remained virtually unchanged as a percentage of net sales at 9.1%. The Company is amortizing over three years the cost of the $1.0 million Consulting Agreement it entered into with JWA in connection with the 1994 Acquisition as a charge to general and administrative expense. Approximately $244,000 of the increase in general and administrative expenses resulted from a full year of amortization of the Consulting Agreement in Fiscal 1995. The unamortized portion of the cost of this agreement will be charged to operations upon consummation of the offering.

Amortization of Intangibles. Amortization of intangibles increased $316,000, or 65%, to $802,000 in Fiscal 1995 from $486,000 in Combined 1994 principally due to a full year of amortization expense related to the excess of purchase price over the fair value of net assets acquired in connection with the 1994 Acquisition.

Amortization of Deferred Compensation. In connection with the 1994 Acquisition, the Stockholders' Warrant to purchase up to 235,192 shares of Common Stock was issued on a pro rata basis to all of the Company's Common Stockholders of record. A portion of the Stockholders' Warrant to purchase up to 108,400 shares was issued to certain members of management and directors of the Company. In Fiscal 1995, the Company recorded deferred compensation expense for the difference between the exercise price on the date of issuance and the estimated fair value of the Stockholders' Warrant at the expected date of the Offering (the time that the number of shares of Common Stock subject to the Stockholders' Warrant can be determined). This amount is being amortized over the period commencing October 1, 1994

through the anticipated date of consummation of the Offering. Deferred compensation expense recognized during Fiscal 1995 was $1.2 mullion.

Interest (Income) Expense, Net. Interest (income) expense increased $1.4 million to $1.8 million in Fiscal 1995 from $482,000 in Combined 1994 primarily due to the full year of interest charges related to the increased debt level from the 1994 Acquisition.

Redeemable Warrant Interest Charge. During Fiscal 1995, the Company expensed $4.6 million as redeemable warrant interest charges. This expense is associated with the accretion in value of the NationsCredit Warrant. (See Note 10 of Notes to Consolidated Financial Statements.) There were no similar expenses incurred in Combined 1994.

Provision for Income Taxes. The provision for income taxes for Fiscal 1995 was $2.0 mullion on a net loss before taxes of $1.5 million. This effective tax rate was due principally to the non-deductibility of the redeemable warrant interest charges, amortization of deferred compensation and amortization costs related to excess of purchase price over fair value of net assts acquired. The effective tax rate of 46% for Combined 1994 was significantly lower than the rate for Fiscal 1995 due to the absence of significant non-deductible charges in Combined 1994.

Combined Twelve Months Ended September 30, 1994, Compared to the Nine Months Ended September 30, 1993.

Due to the difference in the number of months within the periods being compared, direct dollar comparisons are not meaningful. The following discussion will concentrate on the rate of annualized growth in net sales and an explanation of material differences in the relationships that certain other statement of operations items bear to net sales.

Net Sales. Net sales for Combined 1994 of $12.5 million increased 26% over the nine months ended September 30,

1993 on an annualized basis. The growth rate in net sales was due principally to higher unit sales to domestic carton coding customers and to increased sales to customers in Europe and the Far East. Net sales of $3.5 million to those international customers grew at a rate in excess of 100% for Combined 1994 as compared to the nine months ended September 30, 1993 on an annualized basis.

Gross Profit. Gross profit as a percentage of net sales decreased to 53.1% for Combined 1994 from 57.4% for the nine months ended September 30, 1993. The principal reason for this decrease was the $362,000 charge to cost of sales, equivalent to 2.9% of net sales, for the inventory step-up to fair market value recorded in connection with the purchase transaction for the 1994 Acquisition. In addition, net sales for the nine months ended September 30, 1993 included royalty revenue of $171,000 related to an exclusive sales license with Porelon pursuant to which Porelon had the right to sell the Company's products for carton coding applications to OEMs in North America. This license expired in 1993.

Marketing and Selling Expenses. Marketing and selling expenses decreased as a percentage of net sales to 5.6% in Combined 1994 from 7.0% in the nine months ended September 30, 1993 due to the increase in net sales.

Research and Development Expenses. Research and development expenses increased as a percentage of net sales to 8.6% in Combined 1994 from 8.4% in the nine months ended September 30, 1993 due principally to staffing increases in the department.

General and Administrative Expenses. General and administrative expenses increased as a percentage of net sales to 9.1% in Combined 1994 from 7.9% in the nine months ended September 30, 1993. General and administrative expenses for Combined 1994 reflected higher legal and professional fees as well as approximately three months of amortization expense related to the Consulting Agreement.

Amortization of Intangibles. Amortization of intangibles increased as a percentage of net sales to 3.9% in Combined 1994 from 3.4% in the nine months ended September 30, 1993 due to approximately three months of relatively higher amortization charges resulting from the 1994 Acquisition.

Interest (Income) Expense, Net. Interest (income) expense, net, of $482,000 for Combined 1994 increased over the nine months ended September 30, 1993 primarily due to the interest charges related to the increased debt level from the 1994 Acquisition. During the nine months ended September 30, 1993, the Predecessor had no long term debt and had no significant interest expense.

Quarterly Statement of Operations Data

The following tables set forth certain unaudited quarterly financial information in dollars and as a percentage of net sales for the periods indicated. In management's opinion, the unaudited data have been prepared on the same basis as the audited information set forth in the consolidated financial statements contained in this Prospectus and include all adjustments, consisting only of normal recurring adjustments, which management considers necessary for a fair presentation of results for such periods.

Quarterly Statement of Operations Data

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	1993 Oct-Dec	1994 Jan-Mar	1994 Apr-Jan 31(1)	1994 Jan 24-Sep27)	1994 Oct-Dec	1994 Jan-Mar	1995 Apr-Jan	1995 Jul-Sep	1995 Oct-Dec
Quarterly Statement of Operations Data									
Net sales	$2,717	$2,994	$3,081	$3,701	$3,436	$3,898	$4,416	$5,580	$6,047
Cost of sales	1,335	1,337	1,336	1,845	1,440	1,487	1,643	2,034	2,367
Gross profit	1,382	1,657	1,745	1,856	1,996	2,411	2,773	3,546	3,680
Operating Expenses									
Marketing and selling	166	179	167	189	198	216	227	271	265
Research and development	182	280	284	332	267	306	371	373	447
General and administrative	227	246	291	373	339	395	402	444	553
Amortization of intangibles	96	97	74	219	200	200	201	201	200
Operating income before amortization of deferred compensation	711	855	929	743	992	1,294	1,572	2,257	2,255
Association of intangibles					295	296	296	296	296
Operating income	711	855	929	743	697	998	1,276	1,961	1,959
Interest (Income) expense, net	2		(10)	490	464	470	469	442	428
Redeemable warrant interest charge					1,140	1,140	1,40	1,141	1,142
Income (loss) before income taxes	709	855	929	743	697	998	1,276	1,961	1,959
Provision for income taxes	316	321	396	247	273	394	506	792	794
Net income (loss)	$ 393	$ 534	$ 543	$ 6	$(1,180)	$(1,006)	$(839)	$(414)	$ (409)
Percentage of net sales:									
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	49.1	44.7	43.4	49.9	41.9	38.1	37.2	35.5	38.8
Gross profit	50.9	55.3	56.6	50.1	58.1	61.9	62.8	63.5	61.2
Operating expenses									
Marketing and selling	6.1	6.0	5.4	5.1	5.8	5.5	5.1	4.9	4.4
Research and development	6.7	9.4	9.2	9.0	7.8	7.9	8.4	6.7	7.4
General and administrative	8.3	8.2	9.4	10.1	9.9	10.1	9.1	8.0	8
Amortization of administrative	3.6	3.2	2.4	5.9	5.8	5.1	4.6	3.6	4.5
Operating income before amortization of deferred compensation	26.2	28.5	30.2	20.0	28.8	33.3	35.6	40.3	37.3
Amortization of deferred compensation					8.5	7.7	6.7	5.2	4.9
Operating income	26.2	28.5	30.2	20.0	20.3	25.6	28.9	35.1	32.4
Interest (income) expense, net	0.1		(0.3)	13.2	13.5	12.1	10.6	7.9	7.1

Redeemable warrant interest charge					33.2	29.2	25.8	20.4	18.9
Income (loss) before taxes	26.1	28.5	30.5	6.8	(26.4)	(15.7)	(7.5)	6.8	6.4
Provision for income taxes	11.6	10.7	12.9	6.6	7.9	10.1	11.5	14.2	12.1
Net income (loss)	14.5%	17.8%	17.6%	0.2%	(34.3)%	(25.8)%	(19.0)%	(7.4)%	(6.7)%

(1) This quarterly period had 83 days ending June 23, 1994, the day before the closing of the 1994 Acquisition

(2) This quarterly period had 98 days beginning on June 24, 1994, the day of the closing of the 1994 Acquisition

Quarterly net sales and results of operations may fluctuate as a result of a variety of factors, including changes in product mix, demand for the Company's products, the introduction of new products and product enhancements by the Company or its OEM customers, competitive conditions in the industry and general economic conditions.

Liquidity and Capital Resources

Since 1991, the Predecessor and the Company have financed their operations and purchase of capital equipment principally through internally generated funds.

In June 1994, in connection with the 1994 Acquisition, the Company entered into the Credit Facility. The Credit Facility provided funds in the form of long-term debt totaling $13.5 million and a working capital loan of up to $2.5 million. In addition, the Company also received proceeds of $1.9 million from the TA Investors and the Chestnut Investors for the Notes.

The Company's operations provided $3.8 million and $1.5 million in cash in Fiscal 1995 and the three months ended December 31, 1995, respectively. Investing activities, which totaled $440,000 and $196,000, respectively, in Fiscal 1995 and the three months ended December 31, 1995, consisted primarily of capital equipment purchases. The Company also repaid $1.0 million in notes and loans under the Credit Facility during Fiscal 1995 and $312,000 during the three months ended December 31, 1995. As of September 30, 1995 and December 31, 1995 the Company's principal sources of liquidity consisted of $3.0 million and $3.9 mil-

lion, respectively in cash and cash equivalents and $2.0 million and $2.5 million, respectively, in availability in the unused working capital portion of the Credit Facility. At the completion of the Offering, the Company will repay all indebtedness outstanding under the Credit Facility and terminate such facility.

Inventories decreased $500,000, or 34%, to $1.1 million at September 30, 1995 from $1.6 million at September 30, 1994. This decrease reflects the Company's conversion to a just-in-time delivery system which resulted in lower inventory requirements. As of December 31, 1995, inventories had increased to $1.2 million reflecting the increase in the Company's net sales. Accounts receivable increased $1.2 million, or 74%, to $2.9 million at September 30, 1995 from $1.7 million at September 30, 1994. This increase reflects a commensurate increase in the Company's net sales during Fiscal 1995. As of December 31, 1995, accounts receivable had increased to $3.5 million reflecting the Company's higher net sales volume.

The Company believes that funds generated from operations and the net proceeds from the Offering will be sufficient to provide adequate working capital and funds necessary for anticipated capital expenditures and investments for at least the next twelve months. The Company currently anticipates using a portion of such funds in 1996 and/or 1997 for facilities expansion and additional factory automation equipment. In addition, the Company intends to evaluate the acquisition of new technologies, whether through entering into licensing arrangements, acquiring businesses owning desirable technology, or otherwise, for which it may require additional capital. There can be no assurance, however, that such additional capital will be available on terms acceptable to the Company.

Effect of Recent Accounting Pronouncements

In March 1995, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," which established criteria for the recognition and measurement of impairment loss associated with long-lived assets. The Company will be required to adopt this standard in fiscal year 1997. Based on the Company's initial evaluation, adoption is not expected to have a material impact on the Company's financial position or results of operations.

In October 1995, the FASB also issued SFAS No. 123, "Accounting for Stock-Based Compensation", which established financial accounting and reporting standards for stock-based employee compensation plans. Companies are encouraged, rather than required, to adopt a new method that accounts for stock compensation awards based on their fair value using an option pricing model. Companies that do not adopt this new method will be required to make pro forma disclosures of net income as if the fair value-based method of accounting required by SFAS No. 123 has been applied. The pro forma disclosures are required for fiscal year 1996. The fair value-based method of accounting, if adopted by the Company, is effective for fiscal year 1997. Based upon the Company's initial evaluation, promulgation of SFAS No. 123 by the FASB is not expected to have a material impact on the Company's financial position or results of operations because the Company intends to make pro forma disclosures to comply with this pronouncement, instead of adopting the new method.

BUSINESS

Company Overview

The Company designs, manufactures and markets piezoelectric impulse ink jet subsystems including printheads, inks and other consumables, and related components for the industrial market. The Company's proprietary products are used for a variety of printing applications which require high speed, good print quality, durable equipment and the ability to change the printed text or pattern frequently. The Company's Ultrajet printing subsystems are marketed worldwide, primarily through over 70 OEM customers that integrate them into computer-controlled, application-specific products which are then sold to end-users. The Company's contracts with its OEM customers also provide for ongoing sales by the Company of consumables, consisting principally of inks and printing subsystem components.

The largest application in which the Company's products are used is carton coding, which involves printing directly onto shipping cartons. Carton coding systems which incorporate the Company's products allow end-users to print any combination of high quality text, bar codes, and graphics directly onto blank cartons as they move down an assembly or production line. The Company's products allow this information to be changed frequently, even carton by carton. This eliminates the need to maintain a substantial inventory of preprinted cartons or labels, while also reducing production time and costs and allowing for frequent changeover between products. A recent industry estimate predicts that overall end-user demand for impulse ink jet products in the carton coding market will grow from $25 million in 1994 to $140 million in 1999, based on end-user prices. Other current industrial applications for the Company's products include check coding, addressing and business forms imprinting, postal bar coding and stamp cancellation and garment pattern plotting.

Impulse ink jet printing, which was originally developed for the office environment, is a non-contact, digital printing technology in which small droplets of ink are generated from an array of orifices and are propelled through the air toward the surface to be printed. The Company's products, which were developed for the more demanding requirements of the industrial market, are differentiated from office impulse ink jet printers by their higher printing speed, wider print area and rugged construction. The Company's core ink jet printing technology, which is protected by a number of patents, is the result of over 10 years of research and development efforts. The Company has exclusive license rights to this technology in the industrial liquid ink jet market and intends to file patent applications in its own name directed to new ink formulations and printing methods and equipment. To date, the Company has marketed inks which are best suited for use on porous and semi-porous surfaces, such as cardboard and other paper-based shipping containers, checks, mail pieces and paper garment patterns. These inks are attractive to end-users because of their non-toxic and low maintenance characteristics. The Company is also seeking to develop inks and printheads which are suitable for printing on non-porous surfaces, such as plastic bottles and films, and believes that these product developments will allow the Company to sell its products in additional markets. The Company has developed and is presently testing a prototype printhead for non-porous printing which the Company currently believes will be ready for commercial release by the end of calendar year 1996.

The Company's net sales have grown from $6.4 million for the year ended December 31, 1991 to $17.3 million for Fiscal 1995. Over the same period, the Company's operating income has grown from $1.1 million to $4.9 million. In addition, the Company's net sales increased from $3.4 million for the three months ended December 31, 1994 to $6.0 million for the three months ended December 31, 1995. The Com-

pany's international revenues have grown from $3.5 million for Combined 1994 to $5.2 million for Fiscal 1995. The growth rate in the Company's international sales during Combined 1994 and Fiscal 1995 has been higher than the Company's overall growth rate and, in the Company's judgment, is representative of the potential in the international markets.

Industrial Ink Jet Printing

Ink jet printing is a non-contact, digital printing method which allows images to be created and printed under computer control. Ink jet technology has revolutionized the office and home printer market and has been increasingly used in industrial marking applications over the past 20 years. There are three basic ink jet technologies: continuous ink jet, valve jet and impulse ink jet, each of which offers diverse performance and cost characteristics. Continuous ink jet printing involves a continuous stream of ink droplets which are electrically charged to deflect the ink into the desired pattern. Valve jet printing involves sending electronic signals to individual solenoid valves which cause ink droplets to be fired from a pressurized chamber through a nozzle. Impulse ink jet printing utilizes a short duration pressure pulse to eject a droplet of ink from a small orifice. There are no physical valves or pumps required; surface tension and capillary forces control the process. The Company's proprietary impulse ink jet products employ piezoelectric technology, in which electronic pulses are applied to a ceramic crystal, which in turn applies pressure to ink in a chamber causing the ink to be propelled from the orifice onto the printing surface.

The industrial printing market generally encompasses the use of printing technology in manufacturing or production processes, such as printing onto shipping cartons and addressing direct mail pieces. Customers in these markets typically demand high-speed, highly durable printing devices

able to withstand the rigors of industrial use, such as wide extremes of temperature and humidity, dirt and dust, shock and vibration, as well as unskilled operators and commercial requirements which govern the printed image. In addition, recent trends have placed further demands on industrial printing technologies. First, competitive and product marketing pressures have caused manufacturers, distributors and retailers to implement more efficient distribution systems, such as "just-in-time" delivery and electronic data interchange ("EDI") links. The implementation of these systems has in turn required that products and containers be coded with manufacturing, pricing and tracking information that facilitates automatic processing. Second, many industries, trade organizations and retailers are requiring that uniform bar coding and "use-by" date information be placed directly on products, as well as on shipping containers. The print quality of bar codes is particularly important as imperfect print images may result in a production line being halted or a product or container being mishandled or lost. In particular, substantial contractual penalties may be imposed by customers for improperly printed bar codes on deliveries from their supplier.

Industrial printing applications have traditionally utilized preprinted labels, on-demand thermal transfer labels, or offset or lithographic printing methods. Preprinted labels and offset or lithographic printing generally can meet some industrial requirements with respect to speed and print area. They are typically economical only when large quantities of the same item are produced. However, they might not be readily incorporated into an existing production or printing process, and do not allow the addition of variable data. Alternatively, direct thermal and thermal transfer printing methods, by design, print labels with variable data on-demand, which labels are then affixed to the surface. The use of labels on the print surfaces may result in slower production speeds, higher supplies cost and increased possibility of wear or

breakage of the printer or interruption of the production process resulting from the starting and stopping of the labeling process.

Ink jet printing technology, by contrast, possesses many characteristics which are desirable in industrial applications. Preprinted boxes and labels are largely eliminated because most of the required fixed and variable information can be printed on-line, greatly reducing inventory requirements and costly labels. Additionally, ink jet technology is non-contact, which allows it to be integrated into existing production areas and to operate at production speeds without slowing down or stopping the production process. Finally, the ability to print any information digitally offers significant flexibility, which enables end-users to reduce inventories and cycle tunes.

The speed, flexibility and relative cost of ink jet printing generally have driven the application of ink jet printing technologies in industrial markets. Continuous ink jet, for example, has been very successful in high speed, non-contact printing applications, although it is more expensive than piezoelectric impulse ink jet to adapt to the greater print heights required in many industrial applications. Valve jet printers have been successful in low cost printers for applying simple text to cartons, but cannot print graphics and bar codes with sufficiently high resolution to satisfy industrial application requirements, specifically, the Uniform Code Council-Shipping Container Symbol program ("UCC-SCS"), which is the industry standard for bar code printing in this area. The other principal impulse ink jet technology, bubble jet, is used in certain low speed, low duty cycle applications. It is subject to frequent burnout in high-use industrial settings, however, because of its method of operation. Further, bubble jet printers also lack the throw distance required in an industrial environment. In contrast to these other ink jet technologies, the Company's proprietary impulse ink jet technology offers price/performance characteristics required by customers in the Company's markets, as well as durability and versatility.

Business Strategy

The Company's objective is to be a leading supplier of impulse ink jet subsystems and related consumables to industrial markets. Trident's operating strategy is to supply OEM customers with innovative products which are responsive to end-users' needs; to be a world class manufacturer of high quality, reliable, cost-effective products; and to provide superior sales and applications support. The Company also strives to maximize the potential of its core technology through expanded research and development activities. The Company believes the following strategies are critical to its success:

Maximizing its carton coding opportunity. The Company has licensed its products to substantially all of the major providers of ink jet systems for carton coding applications. Although increased end-user acceptance of impulse ink jet technology generated growth in this application in the past year, overall market penetration remains small. To maximize the potential in this market, the Company intends: to develop new products that increase print quality, width and bar code scanability; to reduce cost; and to enter the low-end of the market currently served by valve jet printing. In Fiscal 1995, the Company responded to demands from carton coding OEMs with the introduction of the Ultrajet 256/32 printhead, which had improved print height capabilities, as well as a printhead model for the Company's AllWrite ink. In January 1995, the Company implemented work cell and just-is-tine concepts in its printhead production process which has led to continued improvements in production yields and efficiencies resulting in average cost reductions. Given that the carton coding market is a relatively new market for the Company's products, the Company anticipates that it will continue to focus significant resources on the evolving needs of this market in order to increase its market penetration.

Improving its position in other current markets. The Company intends to target applications for the addressing,

postal, financial and plotting markets primarily through the introduction of new products. The Company believes future growth opportunities in these markets will come from replacing other ink jet technologies with Trident's piezoelectric impulse ink jet technology.

Expanding international sales and applications support. The Company expects that international sales will continue to be a significant portion of the Company's net sales. The Company believes that the adoption of impulse ink jet printing technologies in the international industrial printing industry lags behind that of the U.S. To take advantage of this opportunity, the Company has established an office in Dublin, Ireland to support the European market and anticipates that new offices will be opened as the Company expands further into other geographic regions, such as the Far East. As the Company's international business grows, the Company expects to add further personnel in these regions and offer local packaging of inks and repair services. In Fiscal 1995, the Company's net sales to international customers increased $1.6 million, or 46%, over international net sales in Combined 1994.

Penetrating new marker segments. The Company believes that newer applications for ink jet technology, such as wide area printing of signs, billboards and fabrics, printing onto parts and primary packages and security printing applications, offer significant growth opportunities. The Company anticipates that success in these new markets will require the acquisition and development of new technology as well as enhancements of existing printheads and inks. The Company expects to work with various developers of these systems to design and produce proprietary products with the unique properties required by these systems. The Company is currently developing prototypes of these products and to date has not sold any of these products commercially.

Developing or acquiring further proprietary technologies. The Company believes that the strengths of its current proprietary technology are its speed, wide print area, reliability and robust construction. To continue to penetrate industrial markets, other impulse ink jet technologies are being explored by the Company which the Company expects will be lower in cost and will permit use of a wider range of inks. Although the Company has evaluated and expects to continue to evaluate potential acquisitions of technology or businesses from time to time, the Company has not made any such acquisitions to date and has no pending commitments or understandings to make any such acquisitions.

Current Industry Applications

General. The Company's products are currently utilized in five principal industry applications: the printing or coding of shipping cartons; the imprinting of tracking codes on checks processed through banking systems; the printing and addressing of variable data onto envelopes, catalogs and other mailing pieces and customized/personalized business forms; the plotting of patterns onto paper templates for cutting garment material; and the imprinting of postal items for stamp cancellation and bar coding. The Company's current ink products are conducive to those applications which involve porous and semi-porous printing surfaces such as paper and cardboard. Most of these inks do not dry by evaporation but are absorbed into such surfaces. Because of this characteristic, they do not have the maintenance problems associated with fast-drying, solvent based inks which can dry in the printhead, causing clogging or other interruption of the printing process.

Carton Coding. Net sales represented by products sold to OEMs for carton coding applications accounted for approximately $11.3 million, or 67%, of the Company's net sales in Fiscal 1995, and approximately $4.2 million, or 72% of the Company's net sales for the three months ended December

31, 1995. Carton coding involves the printing onto shipping cartons of product information, bar codes, time-date data, lot manufacturing codes and logos. The printing of several different types of information onto shipping cartons has traditionally required that end-users utilize off-line processes to produce a finished carton, which increases their production costs, throughput times and inventory requirements. Impulse ink jet systems, by contrast, are capable of printing all of these types of information on a carton in one, on-line process and of printing variable data, even carton by-carton. This results in reduced production costs, throughput tunes and inventory requirements. A recent industry estimate by Giga Information Group, formerly BIS Strategic Decisions, of the worldwide market for all ink jet canon coding systems and consumables (based on end-user prices) was $185 million in 1994, increasing to $340 million in 1999. Within this group, it is further estimated that the demand for higher performance impulse ink jet carton coding systems and consumables will grow from $25 million in 1994 to $140 million in 1999, based on end-user prices.

The trend toward impulse ink jet printing solutions for carton coding applications is being driven by a number of factors, including the automation of production lines, the increased use of bar codes which need to meet highly-detailed specifications such as the UCC-SCS, just-in-time manufacturing and cost reduction programs. The Company believes the typical payback time for the end-user customer to be less than one year due to the cost saved in inventory and labels. The Company expects this market to increase as a result of anticipated increased use of high resolution, on-demand printing over conventional methods and replacement of valve jet printers in the lower end of the market with newer, low-cost impulse ink jet products.

The Company's OEM customers construct carton coding systems utilizing the Company's piezoelectric impulse ink jet printheads, ink reservoirs, tubing, driver electronics and ink.

The Company's OEM customers develop the enclosure, computer or controller interface, operator keyboard and software and provide sales and service, training and applications engineering to the end-user. Some OEM customers also develop their own ink reservoir and pumping system and electronic driver printed circuit boards. Carton coding systems typically range from one or two printheads per system for printing bar code or variable text only, to four to six printheads per system for printing all of the information required on one side of a carton. Systems can also be created which print on both sides of a carton. The printhead component of an impulse ink jet carton coding system typically represents one-third to one-half of the manufacturing cost of the system. These systems are typically installed as an integral component of a manufacturing or assembly process and are designed to cause little or no reduction in throughput time. Information is printed on the shipping cartons as they pass by the OEM ink jet system on their way through the manufacturing process.

The principal benefits of the Company's technology to end-user customers are in the area of inventory management and control. Traditionally, end-users of carton coding systems, such as large manufacturing companies and contract packing companies, have been required to keep sufficient carton inventories for their anticipated production of each item they produce or package. Taking into account the variability of sizes and brands of products produced by the typical customer in this market, it is not unusual for such a customer to need more than 100 different cartons. A system incorporating the Company's printing subsystems allows the customer to inventory blank cartons onto which any necessary information may be printed. This can alleviate customers' concerns that shortages of a particular carton might prevent its product from being shipped. A large end-user of the Company's products may have multiple production lines in several geographic locations and require several hundred

printheads to make a changeover of the production process to the Company's technology, The end-users of these systems typically purchase all of their ink and printhead component parts requirements from Trident through Trident's OEM customers.

Check Coding. The Company's imaging subsystem is used by major reader/sorter manufacturers as an imaging module for check processing systems due to its high speed and non-contact capabilities. As a check moves though the banking process, it is stamped, date and time coded and microfilmed for record keeping purposes. Due to the high number of checks processed daily in worldwide banking systems, and the desire of each bank to minimize the "float" of each check, high speed reader/sorter machines have been developed to handle this process in a highly automated fashion.

The price and performance characteristics of the Company's technology offer OEMs a simple-to-use, easy-to-maintain device for this process. Prior to the introduction of impulse ink jet imaging systems in this market, continuous ink jet single channel systems were often used for the highest speed machines. Compared to the intricate continuous ink jet systems, the Trident design offers a less complex solution at a lower price. Many of the leading OEMs in this field have incorporated the Company's piezoelectric impulse ink jet imaging products into their reader/sorter systems, including BancTec Inc.. ("BancTec") and AT&T Corporation. Traditionally, the systems used to perform these functions were large, expensive machines typically located at regional and other central banks and utilized by local banking offices which did not invest heavily in machinery. The Company believes there will be a trend away from such systems in the future toward smaller, less expensive systems placed in local banks, which will benefit sales of the Company's products. In addition, there is a higher proportion of ink sales to printheads in this application.

Addressing and Business Forms Imprinting. The Company's OEM customers have incorporated impulse ink jet technology into low-cost, high-speed addressing systems that are used in "mail shops" throughout North America and Europe. These mail shops offer addressing as a service to direct mail advertisers which require high quality images at the lowest cost per mail piece. The automated processing of direct mail advertisements, announcements, publications and catalogs has relied for many years upon ink jet technology, principally continuous ink jet, to individually mark the name and address of a recipient on each mail piece with a high quality image. Paper labels were often used for this application prior to the introduction of ink jet. The Company's products offer significant price advantages over continuous ink jet printers. Although continuous ink jet printers currently offer higher print quality in these applications, the Company believes that its new AllWrite ink and certain of its printheads presently under development will allow it to compete more successfully with continuous ink jet printers for certain of these applications. In addition, both of these technologies are capable of printing variable data on preprinted literature and envelopes at a rate of up to 30,000 pieces per hour, applying a unique name and address directly to each piece while eliminating the need to print labels off-line. A recent industry study estimates revenues from ink jet addressing systems and consumables in 1994 have been approximately $120 million, increasing to approximately $200 million in 1999, based on end-user prices.

The Company's products are also sold to major printing companies which provide integration of various printing technologies for the production and assembly of direct mail pieces and specialized business forms, preprinted documents, mailers and envelopes along with other inserted materials which are produced and collated on-line to produce a, final, personalized mail piece.

Garment Plotting. During the production of a garment or piece of clothing, disposable paper patterns are used to define the outline of an intended garment piece, such as the sleeve of a shirt. To automate the production of these paper patterns, the Company's OEM customers have developed systems that interface with computers containing a digitalized image of the pattern. The Company's products provide critical speed and throughput by enabling the printing of a wider swath of an image when compared to pen plotting or other impulse ink jets.

Postal. The Company's subsystems are being used by "presort" shops to image bar codes onto mail pieces at high speeds. Presort shops offer sorting and bar coding of mail for larger mailers, which allow these mailers to take advantage of high volume discounts offered by the United States Postal Service. End users at the presort shops require machines that are high utility yet low in maintenance, down time and cost. The Company's subsystem offers a simple, inexpensive ink jet technology for this bar coding requirement.

More recently, the Company's systems have been sold to Cueprint Ltd. ("Cueprint"), whose customer AEG Postal Systems ("AEG") has incorporated such systems into a new product which is intended to be used in postal applications. AEG's first customer for this system is The Royal Mail in Great Britain. This system will use the Company's products for marking indicia during the cancellation of the mail piece within a postal agency's facilities. Although sales to AEG have been immaterial to date, the Company believes that significant opportunities exist for the future sale of these systems into the postal markets. There can, however, be no assurance that the Company will be successful in penetrating these new markets.

New Applications. The Company believes that the use of impulse ink jet technology for wide area printing has excellent potential for growth as ink jet technology replaces tradi-

tional processes such as screen printing, which is uneconomical for short runs because it is time consuming and expensive. The Company has also targeted the market for printing onto parts and packages, which is currently served primarily by continuous ink jet systems, by developing a low cost, simplified printhead product based on the Company's existing technology, as well as a complementary non-porous ink product. Another area, the security printing market, also has potential for growth since impulse ink jet technology can be adapted to print anticounterfeiting measures and covert codes using special proprietary inks and tracking systems.

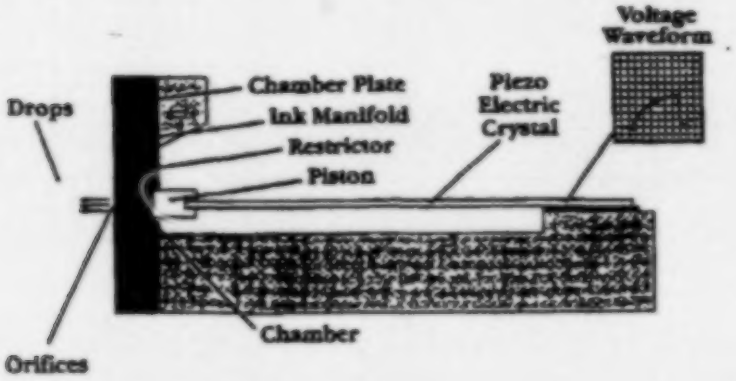
Products

General. The Company specializes in the design and manufacture of proprietary impulse ink jet imaging subsystems, including printheads, inks and other consumables and related components. To support its OEM customer, Trident also offers a comprehensive range of accessories and components, and a printhead repair service. Trident is committed to providing its OEM customers and their end-users with all of their piezoelectric impulse ink jet product and service requirements.

Ultrajet Imaging Subsystems. The Company has developed a series of imaging subsystems which are based on its proprietary impulse ink jet technology. This technology employs a piezoelectric crystal, which is a ferroelectnc ceramic material that changes shape when an electric field is applied across it. Thus, a voltage applied across two faces can cause it to grow or shrink in length, or to be distorted sideways, depending on the mode of operation selected. Trident's patented technology utilizes the piezoelectric crystal as a piston opposite the orifice through which the ink is projected onto the printing surface. A voltage waveform is smoothly increased which causes sub-micron reductions in the length of the piezoelectric crystal. This draws ink into the chamber preparing it for firing onto the printing surface. Surface ten-

sion forces in the orifice prevent air from entering the chamber, which would interfere with the printing process. Next, the voltage across the piezoelectric crystal is rapidly reduced, which allows the length of the crystal to return to its original size and create a sudden pressure pulse inside the chamber, which forces a droplet of ink out of the orifice. The process of printing each droplet takes approximately 0.0001 seconds.

Cross Section of the Tridents® Ultrajet™



One of the principal advantages of the Company's technology is that relatively large droplets can be generated at high frequencies and velocities. The high pressures generated also enable more than one orifice to be placed in each chamber, which increases the print area without adding chambers, thereby avoiding additional cost. The arrangement of the piezoelectric crystal and ink chambers found in the Company's printheads is proprietary to Trident. It enables ink droplets to be formed at frequencies as high as 10,000 droplets per second with an initial velocity of more than 10 meters per second. This enables the droplets to travel across a small gap through the air, which is an important feature in industrial marking applications where the printing surfaces are rarely flat, smooth or traveling at a fixed distance from the printhead.

The Company's printing products are modular to enable its OEM customers to order the most suitable configuration

for their system and to minimize development and production costs. The imaging subsystem consists of a printhead, tubing, cables and, at the option of the OEM, an ink reservoir and electronic driver printed circuit boards. The printheads are available in four basic orifice configurations according to the desired print height and resolution. Some configurations are also available with either stainless steel or nickel orifice plates depending on the selection of ink. The orifice plate can have either one. three, six or eight orifices for each chamber. The use of multiple orifices per chamber in a liquid impulse ink jet printhead is proprietary to Trident. The benefits are increased print area without added cost and complexity. Resolution is sacrificed in applications where print height and cost are more critical, such as bar coding, which does not require high vertical resolution. Multiple printheads may be stacked to create even taller images.

32 CHANNEL ULTRAJET™ PRINTHEAD

In the industrial market, the typical spacing between printed droplets is five to seven thousandths of an inch, which provides a resolution of 140 to 200 dots per inch. In these industrial applications, resolution greater than 200 dots per inch is generally not required, while speed and print distance are often critical. By contrast, impulse ink jet printers developed for the office and home market are required to

generate images with 300 to 600 dots per inch resolution, which creates a requirement for droplets which are substantially smaller than those produced by the Company's technology and which consequently cannot travel as far across air gaps to the printing surface. The higher resolution and smaller droplet volume typical of the printers developed for the office and home markets also reduce the printing speed when compared to the Company's printhead.

Ultrajet Imaging Subsystems			
Product Description	Number of office per channel	Total number of orifices	Print Height (inches)
Model 32/32	1	32	0.16
Model 96/32	3	96	0.48
Model 192/32	6	192	0.96
Model 256/32	8	256	1.89

The Company's imaging subsystem products are priced according to the print area (number of orifices), the type of ink and the ink reservoir. The typical prices range from $800 for the Company's least expensive imaging subsystem to $2,200 for its premium performance bar code product.

Ink Products. The Company offers six basic ink products: PostBrite, VersaPrint, FastDri, AllWrite, HiDef and JetWrite. All except PostBrite, which is an ultraviolet fluorescent ink for postal bar coding, are offered in black. The Company's VersaPrint products are also available in red, blue and green colors. Most of the Company's inks are manufactured from oil or glycol liquids and are, therefore, non-volatile and non-toxic. Two exceptions are the FastDri and AllWrite inks which are formulated for semi-porous printing surfaces and, therefore, require small quantities of volatile solvents to allow drying. The Company expects that future ink products developed for nonporous printing surfaces will require a small amount of maintenance at start-up following shut down periods of two or more hours. The carton coding market uses mainly VersaPrint and HiDef inks which are entirely non-

volatile. This property provides end-user customers with increased reliability, resulting in fewer production delays.

Product Description	Priming Surface	Comments	Package Options
JetWrite	Porous	Original black ink for cartons and banking	A. B. C. D
FastDri	Semi-porous	Original black ink for addressing non-porous mail	B. C
HiDef	Porous	Developed for improved bar codes on cartons	B. C
VersaPrint	Porous	Available in black and colors. V-300 version provides verifiable bar codes on cartons	B. C. D
PostBrite	Porous	Used for U.V. fluorescent postal bar codes	B. C
AllWrite	Semi-porous	General purpose black ink for semi porous	B

A = Cartridge B = 125 ml bottle C = 500 ml bottle D = 1 liter bottle

Accessories and Options. The Company offers a range of accessories and options to assist OEM customers in the development of systems. These are sometimes employed by OEMs only for their initial evaluation of one of the Company's products, while the OEMs develop their own version of the accessory for the final production product. Larger volume producers are generally more inclined to attempt to create their own accessories than smaller ones. Smaller companies, or companies using systems in which the accessories represent a relatively small percentage of the total system cost, are more likely to purchase these components from Trident. An OEM may also purchase equipment from Trident to repair and calibrate printheads itself, provided that it has been trained and certified by Trident.

Other Consumables and Accessories	
Printed Circuit Boards	Power Supply Driver Board Components

Ink Supply Components	Reservoir Priming Pump Manifold
Consumables	Maintenance Spray Wipe Card Flushing Solution

Sales and Marketing

The Company sells its products both domestically and internationally through OEMs and to major end users who have in-house engineering resources capable of developing a printing system utilizing the Company's products. The Company has approximately 70 active customers worldwide, of which approximately one-half currently purchase from five to several hundred printheads per month. No assurance can be given that such customers will continue to make such purchases in such volume, or at all. Several of the Company's OEM customers sell systems incorporating the Company's products worldwide, although the Company recognizes sales to the region where the products are billed. Sales are divided into three regions: North America, Europe and the Far East. Sales to these three regions were approximately $12.1 million, $3.5 million and $1.7 million in Fiscal 1995 and approximately $9.0 million, $2.5 million and $1.0 million in Combined 1994. The Company believes that international use of impulse ink jet applications currently lags behind that of the U.S. The Company expects that the North American region will continue to be the largest due to the strength of domestic OEM customers, particularly those utilizing carton coding applications. European sales are rapidly growing as use of bar codes on shipping containers is increasing and European customers are introducing the use of Trident's products to stamp cancellation. The Far East trails the rest of the world in utilization of impulse ink jet printing technologies. The Company believes, however, that the ability of systems using the Company's subsystems to print certain Asian language characters and the continuing industrialization of

Far East/Pacific Rim countries will create additional demand for the Company's products.

All of the Company's OEM customers are sub-licensed by the Company on a non-exclusive basis to use the Company's products. New customers are required to purchase an evaluation kit from the Company, which includes training on the equipment and an evaluation kit license, before the Company agrees to fully license the customer. Trident believes that this allows it to control the use of the product and to ensure that it is applied competently and professionally in the market. The Company's licenses provide for the ongoing purchase of ink from the Company and the right to use the printheads and inks as a system. The Company is aware of a small number of third-party ink manufacturers offering ink for use with some of the Company's printheads. Use of these third-party inks would be an unlicensed activity by the OEM and its end-user customer, could damage the Company's printheads and would void the warranty on such printheads. Most of the Company's inks, bottles and cartridges are currently protected by patents.

Trident, Inc.
1114 Pedant Road
Brookfield, CT 06804
(103) 740.9331 Fax: (103) 775-9660

TRIDENT, INC.

SALES AND LICENSE AGREEMENT

With

PRISM, INC.

Agreement No. 101. D

EVERY TERM OF THIS AGREEMENT IS IMPORTANT.
READ EACH OF THEM CAREFULLY.

DEFINITIONS

"TRIDENT" shall mean TRIDENT, Inc.

"AGREEMENT" shall mean this Sales And License Agreement.

"BUYER" shall mean the purchaser identified below.

Other words with special meaning in this AGREEMENT, generally capitalized words, shall have the meaning detailed in the OTHER DEFINITIONS section of pages 10 and 11 of this AGREEMENT.

By signing this document, you agree to be bound by the STANDARD TERMS AND CONDITIONS OF SALES attached, which are an integral part of this form AGREEMENT. All sales of TRIDENT APPARATUS for incorporation in certain equipment assembled, used or sold by a BUYER for certain applications include royalty-free, nonexclusive, nontransferable rights under certain proprietary rights of TRIDENT. The specific equipment and applications (LICENSED PRODUCTS) for BUYER are as specified in the "LICENSE GRANT/APPLICATIONS/FIELD OF USE."

LICENSE GRANT/APPLICATIONS/FIELD OF USE (LICENSED PRODUCTS)

To manufacture, use and sell equipment employing and including ink jet printing devices supplied by TRIDENT and when used in combination with ink and ink supply systems supplied by TRIDENT which are produced under now existing Trident patents and related TRIDENT TECHNICAL INFORMATION and copyrights and mark work registrations, in LICENSED PRODUCTS for the following application(s) and field(s) of use:

Trident Product Type:	Ultrajet™ Imaging subsystems — including all COMMERCIALLY AVAILABLE configurations and sundered electronics.
Trident Ink Type:	All COMMERCIALLY AVAILABLE inks from Trident.
Application/Field of Use:	The imaging of addresses and/or coding of mail, envelopes, letters, "flat" mail, labels, newspapers and other periodicals, also imaging of packages, containers, packaging libels end bundle wraps.
Geographical Limitation:	Worldwide.

NOTE: NO LICENSE UNDER ANY FUTURE ISSUED TRIDENT PATENTS OR RELATED TECHNICAL INFORMATION OR FUTURE COPYRIGHTS OR MASK WORK REGISTRATION IS PROVIDED BY THIS AGREEMENT EXCEPT TO THE EXTENT NECESSARY TO MAKE, USE AND SELL LICENSE PRODUCTS INCORPORATING THE TRIDENT APPARATUS SUPPLIED BY TRIDENT PURSUANT TO THE TERMS THEREOF.

THIS AGREEMENT, including the STANDARD TERMS AND CONDITIONS OF SALE on page 3 through 11 of this

AGREEMENT Form constitute the entire AGREEMENT between the Parties hereto and supersedes all proposals, oral or written, and all previous negotiations and other communications between the Parties. The STANDARD TERMS AND CONDITIONS of this AGREEMENT cannot be modified or waived except in writing signed by the Parties hereto and waiver by TRIDENT or BUYER of any provision hereof in any one instance shall not constitute a waiver as to ay other instance. If a provision of this AGREEMENT is invalidated for any reason, this AGREEMENT remains binding except for such invalid provision. This AGREEMENT shall be construed in accordance with and governed by the laws of the State of Connecticut. This AGREEMENT may be signed in several counterparts each of which shall be deemed an original.

IN WITNESS WHEREOF, the Parties hereto with intent to be legally bound, have caused duly authorized personnel of their respective corporations to execute this AGREEMENT effective.

This ____ day of _____, 1999.

PRISM, INC. _____	TRIDENT, INC.
Company	
By: /s/ _____	By: /s/ _____
Title: President _____	Title: President & CEO

No additional or different terms or conditions will be binding upon TRIDENT unless specifically agreed to in writing; failure of TRIDENT to object to provisions contained in any purchase order or other communication from BUYER shall not be construed as a waiver of those terms and conditions nor an acceptance of any such provisions. This AGREEMENT and these terms and conditions shall constitute the entire AGREEMENT between TRIDENT and BUYER, and shall be governed by the laws of the State of Connecticut.

2.a. BUYER'S PRE-ORDER INSPECTION AND ACCEPTANCE

BUYER acknowledges that prior to its order It inspected the TRIDENT APPARATUS including documentation related thereto and had an adequate opportunity to test the TRIDENT APPARATUS for BUYER'S intended use, BUYER acknowledges that it accepts the TRIDENT APPARATUS for BUYER'S intended use.

2.b. JETWRITE, HIDEF, AND VERSAPRINT WARRANTY AND REPAIRS

TRIDENT APPARATUS, including TRIDENT CONSUMABLE SUPPLIES, for a period of one (l) year from the date of Shipment thereof by TRIDENT, under normal use and service, and when employed in accordance with TRIDENT'S TECHNCAL INFORMATION, will be free from defects to materials and workmanship. TRIDENT will, without charge, within thirty (30) working days of receipt of the defective TRIDENT APPARATUS, repair or replace, at its sole option the TRIDENT APPARATUS or parts (normal wear and tear [cut off]

* * *

Trident, Inc.
1114 Federal Road
Brookfield, CT. 06804
(203) 744-9333 Fax: (203) 773-9660

ACCEPTANCE OF THIS ORDER IS CONDITIONED ON
YOUR ASSENT TO THIS ENTIRE AGREEMENT

STANDARD TERMS AND CONDITIONS OF SALES

1. OFFER; GOVERNING PROVISIONS
This writing constitutes an offer by TRIDENT to sell the products and/or services described on page one in accordance with these terms and conditions, and is expressly conditioned upon assent to these terms and conditions.

No additional or different terms or conditions will be binding upon TRIDENT unless specifically agreed to in writing; failure of TRIDENT to object to provisions contained in any purchase order or other communication from BUYER shall not be construed as a waiver of those terms and conditions nor an acceptance of any such provisions. This AGREEMENT and these terms and conditions shall constitute the entire AGREEMENT between TRIDENT end BUYER, and shall be governed by the laws of the State of Connecticut.

2.a. BUYER'S PRE-ORDER INSPECTION AND ACCEPTANCE
BUYER acknowledges that prior to its order it inspected the TRIDENT APPARATUS including documentation related thereto and bad an adequate opportunity to test the TRIDENT APPARATUS for BUYER'S intended use. BUYER acknowledges that it accepts the TRIDENT APPARATUS for BUYER'S intended use.

2.b. JETWRITE™, HIDEF™, AND VERSAPRINT™ WARRANTY AND REPAIRS

TRIDENT APPARATUS, including TRIDENT CONSUMABLE SUPPLIES, for a period of one (l) year from the date of shipment thereof by TRIDENT, under normal use and service, and when employed in accordance with TRIDENT'S TECHNICAL INFORMATION, will be free from defects to materials and workmanship. TRIDENT will, without charge, within thirty (30) working days of receipt of the defective TRIDENT APPARATUS, repair or replace, at its sole option the TRIDENT APPARATUS or parts (normal wear and tar excluded) which are determined to be defective within the warranty period and which are returned to TRIDENT freight prepaid, F.O.B. factory of origin (or other TRIDENT repair facility as may be designated by TRIDENT), provided the TRIDENT APPARATUS or part thereof has not been damaged, subjected to excessive duty cycle, misuse or abnormal operation, or altered or improperly installed, repaired or maintained by BUYER or others in a manner which TRIDENT reasonably determines to have adversely affected performance or reliability. In the event that TRIDENT APPARATUS returned under warranty is in good working order or evidence of ink not supplied by TRIDENT, is found in the TRIDENT APPARATUS, a sixty dollar ($60) evaluation fee will be charged to BUYER by TRIDENT.

2.c. FASTDRI™ WARRANTY AND REPAIRS

TRIDENT APPARATUS, including TRIDENT CONSUMABLE SUPPLIES, for a period of 270 days from the date of shipment thereof by TRIDENT, under normal use and service, and when employed in accordance with TRIDENT'S TECHNICAL INFORMATION, will be free from defects to materials and workmanship. TRIDENT will, without charge, within thirty (30)

working days of receipt of the defective TRIDENT APPARATUS, repair or replace, at it: sole option the TRIDENT APPARATUS or parts (nor wear and tear excluded) which are determined to be defective within the warranty period and which are returned to TRIDENT freight prepaid, F.O.B. factory of origin for other TRIDENT repair facility as may be designed by TRIDENT), provided the TRIDENT APPARATUS or part thereof has not been damaged, subjected to excessive duty cycle, misuse or abnormal operation, or altered or improperly repaired or maintained by BUYER, or others in a manner which TRIDENT reasonably determines to have adversely affected performance or reliability. In the event that TRIDENT APPARATUS returned under warranty is in good working order or evidence of ink not supplied by TRIDENT found is the TRIDENT APPARATUS, a sixty dollar ($60) evaluation fee will be charged to BUYER by TRIDENT.

THE ABOVE WARRANTY DOES NOT COVER TRIDENT INK JET PRINTING DEVICES REPAIRED, REFURBISHED OR OTHERWISE DISASSEMBLED BY PERSONS NOT CERTIFIED BY TRIDENT IN A MANNER SO AS TO BREACH THE FLUID PATH OR DAMAGE TO TRIDENT INK JET PRINTING DEVICES CAUSED BY THE USE OF INK OR SPARE PARTS NOT SUPPLIED BY TRIDENT OR DAMAGE TO TRIDENT INK JET PRINTING DEVICES CAUSED BY FAILURE TO USE TRIDENT AUTHORIZED PROCEDURES AND PROCESSES.

Warranty claims hereunder must be made promptly in Writing, stating the nature and date of the failure, the TRIDENT APPARATUS serial number, if applicable, sad mutt be received by TRIDENT within the applicable warranty period. Notification by telex or facsimile is an acceptable form of notification for those failures that occur during the later stages of the warranty period.

The above warranty extends solely to BUYER and all warranty claims must be made by BUYER and not by customers or other successors of BUYER. Repair or replacement of parts or TRIDENT APPARATUS shall neither extend nor decrease the original warranty period.

2.d. LIMITATION OF TRIDENT'S LIABILITY: DISCLAIMERS

TRIDENT'S liability is limited to and BUYER'S sole and exclusive remedy for breach of warranty shall be the repair or replacement of the defective TRIDENT APPARATUS or part and does not include any labor related to the subsequent installation thereof. TRIDENT APPARATUS or parts repaired or replaced by TRIDENT will be shipped to BUYER F.O.B. destination, freight prepaid within the continental United States (F.O.B. TRIDENT'S factory, freight collect, outside the continental United States).

DISCLAIMER OF IMPLIED WARRANTIES

THE EXPRESS WARRANTIES MADE IN THIS AGREEMENT ARE IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION, WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE AND MERCHANTABILITY.

2.e. EXCLUSION OF CONSEQUENTIAL DAMAGES AND LIMITATION OF OTHER LIABILITIES; BUYER'S INDEMNITY

TRIDENT'S liability with respect to breaches of warranty shall be limited as provided in paragraph 2 hereof. With respect to other breaches of the AGREEMENT, TRIDENT'S liability shall in no event exceed the contract price. TRIDENT SHALL NOT BE SUBJECT TO AND DISCLAIMS: (I) ANY OTHER OBLIGATIONS OR LIABILITIES ARISING OUT OF BREACH OF CONTRACT OR OF WARRANTY

(2) ANY OBLIGATIONS WHATSOEVER ARISING FROM TORT CLAIMS INCLUDING NEGLIGENCE AND STRICT LIABILITY OR ARISING UNDER OTHER THEORIES OF LAW WITH RESPECT TO GOODS SOLD OR SERVICES RENDERED BY TRIDENT, OR ANY UNDERTAKINGS, ACTS OR OMISSIONS RELATING THERETO, AND (3) ALL CONSEQUENTIAL, INCIDENTAL AND CONTINGENT DAMAGE WHATSOEVER. Without limiting the generality of the foregoing, TRIDENT specifically disclaims any liability for penalties (including administrative penalties) special or punitive damages, damages for lost profits or revenues, loan of use of goods or any associated equipment, cost of capital, facilities or services, downtime, shut-down or low-down costs, or for any other types of economic loss. All the limitations and disclaimers contained in this paragraph sad in the rest of this AGREEMENT shall apply to claims of BUYER'S customers or any third party as well as to claims of BUYER. Unless this AGREEMENT is amended, BUYER understands that be is foregoing the possibility of, among other things, recovery from TRIDENT of tort liability. BUYER shall indemnify TRIDENT against any said all losses, liabilities, damages and expenses (including, without limitation, attorneys' fees and other costs of defending any action) which TRIDENT may incur as a result of any claim by BUYER or others arising out of or in connection with the goods or services sold hereunder and based on goods or service defects not proven to hive been caused solely by TRIDENT'S negligence. BUYER understands and agree that the sole and exclusive remedies for breach of any and all warranties and the sole remedies for TRIDENT'S liability of any kind including liability for negligence with respect to the TRIDENT APPARATUS or related spare parts or service covered by Ibis AGREEMENT and all other per-

formance by TRIDENT under or pursuant to this AGREEMENT shall be limited to the remedy of repair or replacement as provided herein.

3. LICENSES ANDASSIGNMENT

The license identified in the LICENSE GRANT/APPLICA-TIONS/FIELD of USE on page 1 to BUYER is royalty-free, nonexclusive and nontransferable. The License and rights granted to BUYER hereunder to make, use and sell LICENSED PRODUCTS shall also extend to any customer of BUYER purchasing or otherwise acquiring the LICENSED PRODUCT from BUYER but only with respect to the particular LICENSED PRODUCT so purchased or acquired from BUYER. BUYER hereby agrees to assign to TRIDENT all of its interest in any proprietary rights including inventions and resulting patents and patent applications and CONFIDENTIAL TECHNICAL INFORMATION comprising improvements in or technology relating to the TRIDENT APPARATUS.

No rights or licenses, expressed or implied, are granted hereunder except those expressly set forth herein. Without in any way modifying the foregoing express limitation, BUYER expressly acknowledges and agrees that no right or license is granted hereunder in connection with rotary printing or the use of the TRIDENT APPARATUS in any rotary printing device or for any rotary printing application. As used herein, the term "rotary printing" shall mean a printing system wherein a sheet of paper is printed upon by means of a rotating print head which has a number of ink jets located about set axis, and wherein the surface of the paper which is to be printed upon is generally curved around the print head, and wherein the axis about which the paper is curved lies generally in the same direction as the axis about which the ink jets are located.

4.a. INTELLECTUAL PROPERTY INFRINGEMENT — TRIDENT'S BASIC OBLIGATION — BUYER'S OBLIGATION TO PROVIDE NOTICE AND TO ASSIST

TRIDENT agrees, at its own expense, to defend BUYER in any suit, claim or proceeding brought against BUYER alleging that TRIDENT APPARATUS purchased by BUYER from TRIDENT infringes a patent, copyright, mask work registration or trade secret right of another PROVIDED, however, that BUYER (a) promptly after BUYER learns of any such suit, claim or proceeding, notifies TRIDENT, in writing, of such suit, claim or proceeding, such that TRIDENT received written notice within ten (10) days of BUYER'S first learning of any such suit, claim or proceeding; (b) gives TRIDENT full information and assistance (at BUYER'S expense) required for TRIDENT to defend such suit, claim of proceeding, and (e) allows TRIDENT at TRIDENT'S expense, to direct the defense including selection of counsel sad negotiation of any settlement,

BUYER AGREES THAT FAILURE TO GIVE THE NOTICE DESCRIBED HEREIN WITHIN THE TIME STATED OR TO GIVE THE DESCRIBED ASSISTANCE MEANS THAT TRIDENT WILL HAVE NO OBLIGATION TO DEPEND BUYER AGAINST ANY SUIT, CLAIM OR PRECEDING. Further, TRIDENT agrees to pay any Judgment, rendered in such suit by final judgment of a court of last resort.

4.b. LIMITATION OF TRIDENT'S OBLIGATION

Notwithstanding anything in this AGREEMENT, TRIDENT shall have no liability to indemnify BUYER in any suit, claim or proceeding brought against BUYER in which the alleged infringement is based upon the making, using or selling of any assembly of which the TRIDENT APPARATUS is a part and does

not, by itself directly infringe, or where the alleged infringement is based upon modification of the TRIDENT APPARATUS as originally supplied by TRIDENT, or where the alleged infringement is based upon the tasking, using or selling, in conjunction with TRIDENT APPARATUS, of equipment or material not provided by TRIDENT.

4.c. TRIDENT NEED NOT REPLACE ENJOINED TRIDENT APPARATUS

BUYER AGREES THAT TRIDENT HAS NO OBLIGATION TO PROVIDE NON-INFRINGING REPLACEMENT FOR ANY ENJOINED TRIDENT APPARATUS OR TO OBTAIN A LICENSE TO INSURE BUYER'S CONTINUED USE OF ANY ENJOINED TRIDENT APPARATUS.

4.d. BUYER'S RESPONSIBILITY

With respect to any other claim, suit or action for infringement of patents, copy rights [sic], mask work protection certificate or trade secret rights brought against BUYER, which claim, suit or action results from BUYER'S making, using, and selling the LICENSED PRODUCT, BUYER shall at its own expense defend any such claims, suits or actions, and at its own expense pay any damages or other sums which may be assessed or may become payable under any final decree or judgment in any such claim, suit or action or under any settlement thereof.

4.e. BUYER'S RESPONSIBILITY TO TRIDENT

BUYER shall, at its own expense, defend TRIDENT in any claim, suit or proceeding brought against TRIDENT alleging that (i) the LICENSED PRODUCT or changes, modifications or enhancements made by BUYER to TRIDENT APPARATUS or to TRIDENT'S TECHNICAL INFORMATION, or (ii) any item excluded from TRIDENT'S obligation to indem-

nify set forth in the first paragraph of this paragraph 4, infringes any patent or copyright or trade secret of mask work registration or other proprietary-right of any third party. BUYER shall pay any judgment against TRIDENT rendered by the final judgement of a court of last resort based upon any such allegation(s) in such suit or proceeding, provided that TRIDENT (i) promptly notifies BUYER in writing of any such claim and gives BUYER the opportunity to defend or settle any such claim at BUYER'S expense and (ii) cooperates with BUYER, at BUYER'S expense, in defending or settling such a claim.

4.f. TRIDENT NOT RESPONSIBLE FOR CERTAIN KINDS OF DAMAGE

TRIDENT SHALL IN NO EVENT BE RESPONSIBLE OR LIABLE FOR CONSEQUENTIAL, SPECIAL, INDIRECT OR PUNITIVE DAMAGES. THE FOREGOING STATES THE ENTIRE LIABILITY OF TRIDENT AND BUYER WITH RESPECT TO INTELLECTUAL PROPERTY INFRINGEMENT.

5. EXCUSED PERFORMANCE

Neither party shall be responsible to the other for failure to perform any of the obligations (other than the obligations to pay money) imposed by this AGREEMENT, provided such failure shall be occasioned by fire, flood, explosion, lightning, windstorm, earthquake, subsidence, of soil, failure or destruction; in whole or in part, of machinery or equipment, discontinuity in the supply of power, governmental interference, civil commotion, riot, war, strikes, labor disturbance or by any cause beyond the reasonable control of the party in question.

6. CONFIDENTIALITY

BUYER agrees to maintain TRIDENT'S CONFIDENTIAL TECHNICAL INFORMATION (including

but not limited to data, plans, specification, designs and drawings) in confidence from the time of disclosure, and to use reasonable efforts to prevent the disclosure thereof to others including AFFILIATES except (a) in confidence on a need-to-know basis, (b) only to individuals and entitles which have agreed in writing to maintain such CONFIDENTIAL TECHNICAL INFORMATION in confidence, and (c) only to the extent necessary for BUYER to make, use and sell LICENSED PRODUCTS. With respect to the above, TRIDENT agrees to supply BUYER with and allow the BUYER to use such technical information as is necessary to enable BUYER to produce BUYER'S technical manuals for LICENSED PRODUCT. However, no CONFIDENTIAL TECHNICAL INFORMATION of TRIDENT may be incorporated in the manuals.

7. TERMS OF PAYMENT

Invoices for TRIDENT APPARATUS shall be rendered upon shipment. Payment of these and all other invoices shall be made in full thirty (30) days from date of invoice paid in U.S. dollars drawn on a U.S. bank and TRIDENT may, at its option, require that such payments be secured by letters of credit. Any payment not made on or before its due day will be subject to any annual interest charge of the lesser of (a) eighteen percent (18%), (b) one percent (1%) above the average of the daily prime rate of Citibank N.A. (New York), or (c) the maximum rate permitted by law.

8. PRICES

All prices quoted are subject to change, with ninety (90) days notice in writing. If there is a delay in completion of shipment of BUYER'S order, due to any change requested by BUYER or as a result of any delay on BUYER'S part in furnishing information re-

quired for completion of the order, the price in effect at time of acceptance of order is subject to the change.

9. SHIPPING, DELIVERY AND PACKAGING

All prices are F.O.B. TRIDENT'S shipping dock. The mode of transportation shall be designated by BUYER and may be revised by written notices received by TRIDENT at least ten (10) working days prior to the scheduled delivery date. Purchase Orders without specific shipping instructions will be transported consistent with the nature of the equipment and the hazards of transportation of the material.

BUYER agrees that shipments shall be taken in accordance with the delivery schedule TRIDENT quotes to BUYER. The lead times specified and the delivery schedule quoted by TRIDENT are the best estimate possible, based on current and anticipated factory loads, of when TRIDENT APPARATUS will be shipped. TRIDENT assumes no liability for loss, damage or consequential damage due to delays.

The prices specified include cost of commercial packaging adequate for shipment by air or land surface carriers. Special packaging required by BUYER for shipment by other modes shall be quoted by TRIDENT on request.

10. TAXES

TRIDENT'S prices for TRIDENT APPARATUS are exclusive of any applicable sales, use or excise taxes or other charges levied by any governmental authority and shall be separately itemized on TRIDENT'S invoice and paid by BUYER unless BUYER furnished TRIDENT a properly completed exemption certificate or such other evidence prescribed by the appropriate taxing authority as proof of exemption from such taxes.

11. TITLE/RISKS

All TRIDENT APPARATUS shall be shipped F.O.B. TRIDENT'S shipping dock, freight collect Title shall pass to BUYER at the F.O.B. point which will be TRIDENT'S shipping dock. Not withstanding the foregoing, until title passes to BUYER, TRIDENT agrees to maintain TRIDENT APPARATUS in good operating condition. BUYER assumes all risk of loss or damage while the equipment is in the BUYER'S possession, including without limitation, risk of loss in transit from TRIDENT'S facilities. TRIDENT may request, and BUYER shall provide TRIDENT with evidence of appropriate insurance coverage.

12. EFFECTIVE DATE. TERMINATION AND RESCHEDUING/CANCELLATION

The "Effective Date" of this AGREEMENT shall be the date indicated on page 2. This AGREEMENT may be terminated by either Party at any time if the other Party has substantially breached any material provision contained in this AGREEMENT and this breach has not been cured within thirty (30) days of receipt of written notice thereof.

BUYER may reschedule or cancel, in whole or part, any order issued hereunder and accepted by TRIDENT at any time prior to shipment provided that written notice is received by TRIDENT. In the event of such scheduling or cancellation, BUYER agrees to pay an amount equal to the appropriate level noted in the table provided TRIDENT has no other acceptable option for this rescheduled or canceled TRIDENT APPARATUS within a reasonable period of time. An order can be rescheduled no more than twice for a cumulative period not to exceed ninety (90) days.

Number of Days Prior to Scheduled Shipment That Notice is Received by TRIDENT	Reschedule Charge	Cancellation Charge
180 and over	0	0
120 – 179	0	10%
90 – 119	0	20%
5 – 89	5%	40%
0 – 4	5%	60%

13. POST-ORDER INSPECTION AND ACCEPTANCE

BUYER may conduct; at its own expense, incoming acceptance tests to confirm that each TRIDENT APPARATUS passes an acceptance test for such Apparatus as set forth in TRIDENT'S TECHNICAL SPECIFICATIONS. Acceptance testing of the TRIDENT APPARATUS shall be completed prior to any modification and/or reconfiguration of the same by BUYER. It shall be BUYER'S responsibility to assure that TRIDENT APPARATUS is fit for BUYER'S particular purpose and meets BUYER'S particular needs and expectations and that changes made to TRIDENT APPARATUS do not effect the Apparatus' performance to specification. The period for conducting such tests shall conclude thirty (30) days after receipt of each TRIDENT APPARATUS, or after 100 equipment operational hours (the "Acceptance Period"), whichever occurs first, and all TRIDENT APPARATUS shall be deemed accepted unless written notice of acceptance test failure is provided to TRIDENT within the Acceptance Period. Payment shall not be construed as acceptance.

14. OEM CERTIFICATION

BUYER represents that the TRIDENT APPARATUS purchased hereunder will be utilized by BUYER only in the assembly, and as a constituent part, of a LICENSED PRODUCT assembled by BUYER and supplied for sale or, lease, to third parties in the regular course of BUYER'S business. This representation is

made for the purpose of enabling TRIDENT to determining prices applicable to this AGREEMENT.

15. RETURNS
TRIDENT APPARATUS sold to BUYER under the terms of this AGREEMENT should not be returned for any reason without authorization and packing instructions.

16. TRAINING AND TECHNICAL SUPPORT
TECHNICAL SUPPORT from TRIDENT to BUYER may be charged at the then prevailing hourly rate. All costs of the support personnel's travel and living expenses during the first two (2) days and thereafter shall be charged to BUYER. The current hourly rate is $120.00 per hour and/or $880.00 per day and the increase, if any, to a prevailing rate at the time BUYER requests TECHNICAL SUPPORT will be consistent with TRIDENT'S actual cost for providing such service and with industry practice.

17. ASSIGNMENT
This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Either party may assign this AGREEMENT without prior approval to any of its AFFILIATES, but otherwise neither party may assign this AGREEMENT or say obligation hereunder without the express written consent of the other party, which consent shall not be unreasonably withheld; any such assignment to which written consent is not given shall be void, except as assignment pursuant to consolidation, merger, or in connection with the transfer of all or substantially all of its assets or business relating to ink jet printing document processing devices, in which event the consent of the other patty shall not be required.

18. INCORPORATION

Any clause required to be included by TRIDENT or BUYER in a contract or AGREEMENT of this type by any applicable law or administrative regulation having the effect of law shall be deemed to be incorporated herein.

19. SUPPLY ASSURANCE

TRIDENT will supply and BUYER will purchase ink jet printing devices and all of BUYER'S requirements for ink, ink supply systems and special integrated circuits of the type presently used by TRIDENT in its ink jet printer driver boards for use with ink jet printing devices supplied by TRIDENT and all parts therefore so as to assure availability and the proper operation of the ink jet devices for a period of five (5) years from the date hereof. However, TRIDENT'S obligation to supply is conditioned on the purchase of at least 50 ink jet Imaging Subsystems per year with no more than two orders to reach such a quantity, and that: 1) TRIDENT has not been declared bankrupt, insolvent nor engaged in proceedings under the bankruptcy laws or 2) TRIDENT is unable to produce product because of a natural or accidental disaster, war or other national emergency.

20. OTHER DEFINITIONS

"LICENSED PRODUCT" Shall mean the equipment made, used or sold by BUYER described in the LICENSE GRANT/APPLICATIONS/FIELD OF USE on page one, for use in applications described therein, employing and including ink jet printing devices supplied by TRIDENT when used in combination with ink and ink supply systems supplied by TRIDENT,

"PATENT RIGHTS" shall mean all United States and foreign patents and patent applications owned or controlled by TRIDENT or assigned by BUYER to TRI-

DENT or licensed by TRIDENT with rights to grant sublicenses, and all divisions, continuations, continuations-in-part; and reissues or extensions thereof, now or hereafter obtained to the extent, and only to the extent, that they or the claims thereof cover one or more features of LICENSED PRODUCT and excluding patents, patent applications and claim thereof that cover items purchased hereunder including supplies and consumables.

"TRIDENT'S TECHNICAL INFORMATION" shall mean design, use, operating end assembly information and know-how (written or otherwise) relating to LICENSED PRODUCT, including changes, enhancements, and improvements relating thereto, whether copyrighted or not which TRIDENT possesses during the term of this AGREEMENT, insofar as necessary or useful to BUYER in manufacture, use, test, installation, maintenance, or operation of LICENSED PRODUCTS.

"CONFIDENTIAL TECHNICAL INFORMATION" shall mean any and all of TRIDENT'S Technical Information disclosed, directly or indirectly, to BUYER by TRIDENT or its AFFILIATES, heretofore or hereafter under this AGREEMENT, or assigned by BUYER to TRIDENT, which information shall be marked or indicated "Confidential," except:

(a) technical information which at the time of its disclosure was in the public domain;

(b) technical information which after disclosure become part of the public domain by publication or otherwise through no fault of BUYER or its AFFILIATES (but only after and only to the extent that, it is published or otherwise becomes part of the public domain);

(c) technical information which BUYER can show was in its possession or its AFFILIATE'S possession at the time of disclosure and was not acquired, directly or indirectly, from TRIDENT or its AFFILIATES or from a third party under an obligation of confidence; and

(d) technical information which BUYER can show was received by it or its AFFILIATES after the time of disclosure from a third party who did not require BUYER or its AFFILIATE as the case may be, to hold it in confidence and who did not acquire it, directly or indirectly, from the disclosing party or its AFFILIATES under an obligation of confidence.

"AFFILIATE" as used in this AGREEMENT is connection with a designated company shall mean any company of which the designated company now or hereafter owns or controls, directly or indirectly, fifty percent (50%) or more of the stock having the right to vote for directors thereof. For the purpose of this definition, the stock owned or controlled by a particular company shall be deemed to include all stock owned or controlled, directly or indirectly; by any other company of which the particular company owns or controls, directly or indirectly, fifty percent (50%) or more of the stock having the right to vote for directors thereof.

"TECHNICAL SUPPORT" shall mean TRIDENT'S providing limited technical assistance to BUYER for the purpose of educating BUYER in the use, operation and assembly of LICENSED PRODUCT.

"TRIDENT APPARATUS" shall mean any one or a combination of the "ink jet printing devices," "ink," "ink supply systems," "ink jet printer driver boards," parts therefore including "special integrated circuits" and "TRIDENT CONSUMABLE SUPPLIES" manu-

factured and/or sold by TRIDENT as of the date of this AGREEMENT.

"TRIDENT CONSUMABLE SUPPLIES" shall mean one or a combination of the "ink," "containers for ink," "wipe cards," "cleaning materials," "maintenance materials" and other consumables manufactured and/or sold by TRIDENT as of the date of this AGREEMENT.

"TRIDENT'S TECHNICAL SPECIFICATION" shall mean TRIDENT'S TECHNICAL SPECIFICATIONS for OEM Ink Jet Assembly in effect as of the date of this AGREEMENT.

"COMMERCIALLY AVAILABLE" shall mean any products offered by TRIDENT that are available for general sale to all customers. These items are published in TRIDENT'S standard OEM pricing catalog, including various inks, Imaging Sub-systems, electronics, spare parts and the like. This pricing catalog is revised from time to time to include new product offerings.

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Attorneys For Plaintiff and Counterdefendant
INDEPENDENT INK, INC.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

INDEPENDENT INK, INC., a California corporation Plaintiff, vs. TRIDENT, INC., believed to be a Connecticut corporation; and Does 1 through 50, DEFENDANTS.	No. CV98-6686 NM (CWx) **SUPPLEMENTAL DECLARATION OF BARRY BRUCKER IN SUPPORT OF INDEPENDENT'S REPLY TO TRIDENT'S OPPOSITION TO INDEPENDENT'S MOTION FOR SUMMARY JUDGMENT OF NON-INFRINGEMENT OF U.S. PATENT NO. 5,343,226 AND ANTITRUST VIOLATION**
TRIDENT, INC., a Connecticut corporation Counterclaimant, Independent Ink, Inc., a California corporation, and DOES 1 through 10 Counterdefendants.	DATE: August 28, 2000 TIME: 10:00 a.m. Hon. Nora M. Manella

I Barry Brucker hereby declare as follows:

1. I have personal knowledge of the facts set forth in this declaration and if called upon can and will testify to them in a court of law.

2. The attached Exhibit 1 Titled "CUSTOMER INFORMATION BULLETIN" #101 "TRIDENT AGREEMENT WITH MICROPORE" from TRIDENT INC., *to its customers*. Was maintained as a part of our business records at Independent Ink. It states in the second to the last paragraph:

> "We hope that this provides you with a clear understanding. Please note. *In particular, that under no circumstances does anyone other than Trident have any License or rights to supply you with ink for Trident products.*"

(Emphasis supplied except as to "anyone" which is emphasized in the original.)

3. This paragraph addressed to Trident's customers by Trident in this information bulletin is a clear indication of Trident's intent to prevent any other supplier from supplying ink to Trident's customers using Trident products which include their Patented printheads and containers.

4. The license agreement between Trident and its customers which was attached to my previous declaration, is also maintained as part of the business records of Independent Ink, Inc.

5. The damage to competition is dramatic. End users pay up to $325.00 per bottle for Trident inks and replacement bottles. By contrast our refill cost to end users is $125-$189 per bottle.

I declare under penalty of perjury of the laws of the State of California as well as under the laws of the United States of America that the statements contained herein are true and correct.

DATE: 7-16-2000

/S/ BARRY BRUCKER
Barry Brucker

Exhibit 1

* * *

Trident, Inc.
1111 Federal Road
Brookfield, CT 0680-1140
(203) 740-9333 Fax; (203) 775-9060

December 27, 1994

CUSTOMER INFORMATION BULLETIN #101

TRIDENT AGREEMENT WITH MICROPORE

The purpose of this bulletin is to explain and clarify the current relationship between Trident, Inc. and Micropore; Inc. for the supply of inks previously purchased from Porelon.

Micropore, Inc. purchased Porelon, Inc.; from Johnson Worldwide Associates in June 1994, Prior to the divestiture of Porelon by Johnson Worldwide Associates, Porelon supplied Trident with several of our most popular inks in bulk quantity. Trident repackaged these inks for sale to our customers. The ink formulations were developed by Trident, and Porelon acted as a vendor in this arrangement.

The current arrangement is as follows:

- Trident will purchase from Micropore those inks that were previously purchased in bulk from Porelon, and;

- Micropore has the right of first refusal to supply other Trident inks with a certain minimum anticipated volume, at a competitive price,

- Micropore cannot sell or make ink, directly or indirectly, for Trident's customers anywhere in the world.

- Micropore has no rights to Trident inks other than to manufacture bulk ink under the conditions defined above. Trident packages and labels these inks into bottles and cartridges at our Brookfield, Connecticut facility.

We hope that this provides you with a clear understanding. Please note, in particular, that under no circumstances does anyone other than Trident have any license or rights to supply you with ink for Trident products.

We also request anyone; finding ink being sold as "Trident compatible" by companies other than Trident and its customers, to provide details and samples to Trident so that we can evaluate the product for potential patent infringement and incompatibility.

* * *

I INTRODUCTION

This is a motion for summary judgment of illegal patent tying based upon the agreements entered into between Defendants Trident/ITW and their customers. The case against Trident/ITW has many facets, and Independent believes it can successfully move for summary judgment on many of the various causes of action it is asserting. The present motion is directed to only one of those grounds. This motion raises essentially only an issue of law. The contracts are either illegal patent tying or they are not. Independent believes that if its motion is granted, this case will be much more clearly defined and much easier to either resolve or settle.

As a precondition to purchasing and selling Trident/ITW's patented system and obtaining a license under those patents, Trident/ITW's customers are only allowed to sell ink purchased from Trident/ITW. This is illegal patent tying. Because the licenses also extend to any customer of Trident/ITW, the end users are also prohibited from using ink which does not come from Trident/ITW.

As the Court may recall from the Markman hearing, this is a case wherein the defendants Trident and ITW manufacture a patented piezoelectric ink jest print head system which is then sold to original equipment manufacturers (OEMs) who incorporate the print head system into printers for use in printing bar codes on craft paper. The printers are then sold through a network of distributors to end users who are generally large manufacturing concerns such as Proctor & Gamble. Trident/ITW also manufacture "consumables" for use with these printers. The primary consumable is specially formulated ink.

The consumables are a significant portion of Trident/ITW's revenue stream and accordingly, Trident/ITW have engaged in a comprehensive scheme or program to pre-

vent others from selling ink for use in their patented system. They refer to these other ink manufacturers as "pirates".

Trident/ITW have made no secret of the fact that they will take whatever action is necessary to protect this all important revenue stream from the sale of their ink. This includes enforcing the illegal tying contracts through threats of litigation.

Trident/ITW's OEMs are also potential customers of Independent. The agreements prohibit the OEMs from purchasing ink from Independent or any other third party source. A number of OEMs have complained about the fact that they were at a substantial disadvantage because they could not buy ink from Defendants at Defendants' prices and then sell in competition with "ink pirates". Several OEMs' complained about being restricted from buying ink from other sources and having to buy all their supplies from Defendants, and some have expressed a specific desire to purchase from third parties.

All of these facts will be developed in this memorandum.

II. TRIDENT/ITW'S OEM AGREEMENTS ARE PATENT TYING AGREEMENTS AND PER SE VIOLATIONS OF THE ANTITRUST LAWS.

It has long been the law in this country, as clearly enunciated by the Supreme Court on numerous occasions, that it

* * *

* * *

Number 8 — Independent lank did not attempt to prevent Defendants from discovering Independent Ink's evidentiary basis for claiming that Defendants had market power. Defendants attempted to define the market as the sales of all commercial ink jet ink. It is clear that the relevant market, for purposes of this lawsuit, is a particular type of commercial ink, ink to be used in conjunction with Defendants' patented print ad system. Accordingly, sales of all commercial inks are not the relevant market and such a question is irrelevant to the issues in this lawsuit.

Number 9 — Mr. Strong was not presented as an antitrust analysis. He was a damage expert. Relevant market is an issue of law in this case, and has been well established, is presumed.

Number 10 — Mr. Strong did not testify that he did not perform a proper antitrust analysis. He did not perform an antitrust analysis at all. He was a damage expert.

Number 29 — This is another example of Defendants' attempt to mislead the Court. The complete interrogatory answer does not simply state that evidence to support its allegations would be determined and presented at the appropriate time. The first part of the response is an objection based on the fact that the interrogatory calls for a legal conclusion. If Defendants did not agree with this response, they had an opportunity to pursue this with the Magistrate as a discovery dispute. What is presently before the Court is not a discovery dispute, it is a Motion for Summary Judgment.

Number 30 — This statement is a complete mischaracterization of the deposition testimony. In the first

* * *

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Attorneys for defendant Trident, Inc.
and defendant and counter-claimant
Illinois Tool Works, Inc.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

INDEPENDENT INK, INC., a California corporation Plaintiff, vs. ILLINOIS TOOL WORKS, INC., a Delaware corporation; TRIDENT, INC., a Connecticut corporation, and DOES 1 THROUGH 50, Defendants.	Case No. CV 98-6686-NM (CWx) Honorable Nora M. Manella **DECLARATION OF LAURA A. WYTSMA IN SUPPORT OF DEFENDANTS' MOTION FOR PARTIAL SUMMARY JUDGMENT ON INDEPENDENT INK, INC.'S SECOND AND THIRD CLAIMS FOR ANTITRUST VIOLATION**
ILLINOIS TOOL WORKS INC., a Delaware corporation, Counterclaimant, vs. INDEPENDENT INK, INC., a California corporation, and ROES [sic] 1 THROUGH 10, Counterdefendants.	Date: January 28, 2002 Time: 10:00 a.m. Ctrm: 11, Hon. Nora M. Manella **ATTORNEYS' EYES ONLY INFORMATION SUBJECT TO PROTECTIVE ORDER**

I, Laura A. Wytsma, declare as follows:

1. I am an attorney duly licensed to practice law before this Court and the Courts of the State of California. I am an attorney with the law firm of Sonnenschein Nath & Rosenthal, attorneys of record for defendant Trident, Inc. ("Trident") and defendant and counterclaimant Illinois Tool Works, Inc. ("ITW") (collectively "Defendants"), in this action. I have personal knowledge of the facts set forth herein, except for those matters stated on information and belief which I believe to be true. If called, I could and would competently testify thereto, under oath.

2. On January 17, 2001, Independent Ink, Inc. ("Independent") filed its fourth amended complaint in this action. A true and correct copy of Independent's Fourth Amended Complaint is attached hereto as Exhibit A.

3. On May 24, 2001, Defendants deposed Independent's damages expert, George G. Strong, Jr. A true and correct copy of the relevant excerpts from Mr. Strong's deposition transcript is attached hereto as Exhibit B.

4. A true and correct copy of Independent's Responses to ITW's First Set of Requests for Admissions, served on April 25, 2001, is attached hereto as Exhibit C.

5. A true and correct copy of Independent's Responses to ITW's First Set of Special Interrogatories, served on April 9, 2001, is attached hereto as Exhibit D.

6. On April 19 and 20, 2001, Defendants deposed Nora Valdez, an employee of Independent. A true and correct copy of the relevant excerpts from Ms. Valdez's deposition transcript is attached hereto as Exhibit E.

7. On July 24, 2000, Trident deposed Independent's President, Barry Brucker. A true and correct copy of the relevant excerpts from Mr. Brucker's deposition transcript is attached hereto as Exhibit F.

8. On July 25, 2000, Trident deposed Independent's Rule 30(b)(6), Fed.R.Civ.P., witnesses, Barry Brucker and Ranganathan NK. A true and correct copy of the relevant excerpts from Independent s July 25, 2000, 30(b)(6) deposition transcript is attached hereto as Exhibit G.

9. On July 31, 2000 Trident deposed Thomas Barnett, President of Marsh. A true and correct copy of the relevant excerpts from Mr. Barnett's deposition transcript is attached hereto as Exhibit H.

10. On August 22 and 23, 2000, Independent deposed Trident's President, Elaine Pullen. A true and correct copy of the relevant excerpts from Ms. Pullen's deposition transcript is attached hereto as Exhibit I.

11. On April 4, 2001, Defendants again deposed Independent's Rule 30(b)(6), Fed.R.Civ.P., witnesses, Barry Brucker and Ranganathan NK. A true and correct copy of the relevant excerpts from Independent's April 4, 2001, 30(b)(6) deposition transcript is attached hereto as Exhibit J.

12. On May 8, 2001, Defendants deposed Independent's Vice-President, Ranganathan NK. A true and correct copy of the relevant excerpts from Mr. Ranganathan's deposition transcript is attached hereto as Exhibit K.

13. True and correct copies of a subpoena served on the custodian of records for E&J Gallo Winery on or about April 10, 2001, and E&J Gallo Winery's production of documents in response to the subpoena are attached collectively as Exhibit L.

14. On October 20, 2000, Independent filed a motion for summary judgment on the antitrust claims in its Second Amended Complaint. A true and correct copy of Independent's Memorandum of Points and Authorities in support of its motion for summary judgment is attached hereto as Exhibit M.

15. A true and correct copy of a report entitled *Trident Ink Business — A Factual Report to Aid in Preparing the Damage Model for Independent Ink Inc.*, prepared by Independent's Vice-President, Ranganathan NK, is attached hereto as Exhibit N.

I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct.

Executed on November 9, 2001 at Los Angeles, California.

/s/ LAURA A. WYTSMA
Laura A. Wytsma

EXHIBIT B
TO WYTSMA DECLARATION

CERTIFIED COPY

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

INDEPENDENT INK, INC., A CALIFORNIA CORPORATION	)	
PLAINTIFF,	)	
vs.	)	No. CV 98-6686 NM (CWX)
ILLINOIS TOOL WORKS, INC., A DELAWARE CORPORATION; TRIDENT, INC., A CONNECTICUT CORPORATION, AND DOES 1 THROUGH 50,	)	
DEFENDANTS.	)	

CONFIDENTIAL — ATTORNEYS' EYES ONLY

DEPOSITION OF GEORGE G. STRONG, JR.
LOS ANGELES, CALIFORNIA
THURSDAY, MAY 24, 2001

REPORTED BY:

TAMAR J. WOLFE
CSR NO. 8110, RPR, CRP, CRR

JOB NUMBER: 20877SON
CSR NO. 8110, RPR, CRP, CRR

LUDWIG KLEIN REPORTERS & VIDEO, INC.
10868 KLING STREET
TOLUCA LAKE, CA 91602
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* * *

[Tr. 46] Q. AND THE ONLY THING YOU CONSIDERED AS AN ADVANTAGE OR DISADVANTAGE OF THE DISTRIBUTION NETWORK WAS TRANSLATED INTO PRICE?

A. CAN I HAVE THAT BACK AGAIN?

Q. I'LL REPHRASE IT.

A. OKAY.

Q. THE ONLY THING YOU CONSIDERED, IN RELATIONSHIP TO THE EFFECT OF THE DISTRIBUTION NETWORK, WAS ITS EFFECT ON THE PRICE TO THE END-USER?

A. WELL, THE ONLY — THE ONLY THING I CONSIDERED IN THE PRODUCTION — OR IN THE CALCULATIONS I HAVE PRESENTED IS ITS EFFECT ON PRICE. THAT'S CORRECT.

Q. AND YOUR REPORT ONLY ADDRESSES THE EFFECT OF THE DISTRIBUTION SYSTEM AS IT MAY AFFECT THE PRICE TO THE END-USER?

A. I DON'T BELIEVE THE REPORT ADDRESSES ANY OTHER BENEFITS TO THAT; FOR EXAMPLE, SERVICE, REPUTATION, THINGS REFERENCED BY MR. WILLIAMS. IT DOES NOT —

Q. BUT YOU NEVER TALKED TO ANY END-USERS, DID YOU?

A. I DID NOT.

Q. NO ONE IN YOUR ORGANIZATION TALKED TO ANY [Tr. 47] END-USERS?

A. THEY DID NOT.

Q. YOU MADE NO INDEPENDENT INVESTIGATION OF HOW END-USERS DETERMINED WHAT

PRINTING SYSTEMS OR WHAT INKS THEY'RE GOING TO BUY?

A. WE HAVE NOT.

IS THIS A GOOD TIME FOR A BREAK?

Q. ANYTIME. BY THE WAY, GEORGE, I SHOULD HAVE ADDED, ANYTIME YOU WANT TO TAKE A BREAK —

THE VIDEOGRAPHER: OFF THE RECORD, 10:18 A.M.

(BRIEF RECESS.)

THE VIDEOGRAPHER: ON THE RECORD, 10:45 A.M.

BY MR. WHITEHEAD:

Q. ALL RIGHT. WE'RE BACK ON THE RECORD, AND WHERE WE LEFT THE RECORD —

A. COULD I INTERRUPT YOU? I HAVE A CLARIFICATION TO THE RECORD WITH REFERENCE TO, I THINK, THIS EXHIBIT.

Q. EXHIBIT 9?

A. IS IT 9?

Q. UH-HUH.

A. OKAY. AND THAT HAS TO DO WITH — AT THE BREAK I WAS SPEAKING WITH MR. BRUCKER, WHO POINTS

* * *

[Tr. 112] NEITHER YOU NOR ANY MEMBER OF YOUR ORGANIZATION WENT OUT AND MADE AN INDEPENDENT INVESTIGATION AND TALKED TO PEOPLE IN EITHER THE PRINTING BUSINESS, THE

PIEZOELECTRIC PRINTING HEAD BUSINESS, OR THE INK MARKET?

A. THAT'S CORRECT, WE DID NOT.

MR. WHITEHEAD: OFF THE RECORD JUST A SECOND.

THE VIDEOGRAPHER: OFF THE RECORD, 12:15 P.M.

(LUNCH RECESS, 12:15 P.M. TO 1:24 P.M.)

* * *

[Tr. 114] ONE.

Q. BARRY WAS AT THE FIRST ONE, NOT THE SECOND ONE?

A. THAT'S MY RECOLLECTION. AND I DON'T THINK THERE WERE ANY REPRESENTATIVES OF MR. — EITHER MR. O'CONNOR OR ANYBODY FROM HIS OFFICE AT THE SECOND MEETING.

Q. SO THE SECOND MEETING OCCURRED AFTER YOU RECEIVED MR. RANGANATHAN'S REPORT?

A. YES, JUST, I THINK.

Q. WHAT DID YOU DISCUSS AT THAT MEETING?

A. WELL, WHAT WAS IN HIS REPORT AND HOW WE WERE GOING TO USE IT AND WHAT WE WERE GOING TO DO TO LAY OUT OUR CONCLUSIONS.

Q. OKAY. COULD YOU DETAIL THOSE DISCUSSIONS FOR ME. FIRST, WHAT DID YOU DISCUSS ABOUT THE REPORT?

A. JUST OUR GENERAL APPROACH AND THAT IT WAS — I MEAN, PROBABLY THE KEY THING WAS THAT IT WAS GOING TO BE A BENCHMARK PROFIT NUMBER AS OPPOSED TO TAKING A SPECIFIC MARKET SHARE POSITION. OKAY?

Q. OKAY. YOU WEREN'T ASKED TO INVESTIGATE THE MARKET, WERE YOU?

A. NO. PER SE, YOU MEAN?

[Tr. 115] Q. RIGHT.

A. WELL, OTHER THAN TO — TO UNDERSTAND WHO WAS IN THE MARKET AND THAT IT WAS ESSENTIALLY A TWO-PARTY PLAYER SYSTEM.

Q. BUT AS WE USE THE PHRASE IN ANTITRUST LAW, YOU WERE NOT ASKED TO GO IN AND INVESTIGATE THE MARKET OR DEFINE THE MARKET OR TO DELIVER OPINIONS ABOUT THE MARKET.

A. PER SE, AS WE UNDERSTAND THAT IN AN ANTITRUST SENSE, THE ANSWER IS NO. RIGHT. THE ONLY RELEVANCE OF THE MARKET — WHAT I'LL CALL THE "INDUSTRIAL ORGANIZATION PROBLEM," I.E., HOW THE SHARES WOULD BREAK OUT IN THE BUT-FOR WORLD — WAS TO UNDERSTAND, YOU KNOW, WHO THE SIGNIFICANT PLAYERS WERE, WHETHER THEY WERE MANUFACTURERS OR DISTRIBUTORS;

AND TO UNDERSTAND THAT, IF THIS WAS A TWO-PLAYER SYSTEM, YOU KNOW, A DUOPOLY, IN SUBSTANCE — THAT A COST DIFFERENCE — A COST ADVANTAGE OF ONE VERSUS THE OTHER, MEANING INDEPENDENT, COULD LEAD TO OR AT LEAST IN THE DIRECTION OF A VERY SIGNIFICANT SHARE, PROBABLY NOT TO THE THEORETICAL OPTIMUM OF 100 PERCENT, WHICH IS WHAT I THINK I STATED IN THE REPORT, BUT COULD BE VERY SIGNIFICANT.

[Tr. 116] Q. THIS PHRASE "NICHE MARKET" THAT YOU'VE USED, THAT WAS A WORD THAT WAS USED IN MR. RANGANATHAN'S REPORT?

A. WELL, THAT'S PRETTY — HAS A PRETTY GENERIC — I MEAN, A PRETTY GENERAL DEFINITION TO ME TOO. HE COULD HAVE USED IT AS WELL. AS I UNDERSTAND IT, A NICHE MARKET WOULD BE, YOU KNOW, THE VERY HIGH QUALITY INK THAT'S REQUIRED FOR THIS PARTICULAR APPLICATION, AND THAT SEEMED TO DEFINE A NICHE MARKET TO ME BECAUSE OTHER INKS WERE NOT SUBSTITUTABLE PRODUCTS.

NOW, WITHOUT GETTING INTO THEIR DEGREE OF SUBSTITUTABILITY, WHICH WOULD BE A PROPER ANTITRUST —

Q. NORMALLY, YOU'D HAVE TO DO A LOT OF INVESTIGATION INTO SUBSTITUTABLE AND A LOT OF OTHER ISSUES TO COME UP WITH OPINIONS ON THIS.

A. CROSS ELASTICITY OF DEMANDS, THOSE KINDS OF THINGS, GENERALLY, YES.

Q. AND YOU DID NOT DO THAT?

A. I DID NOT DO THAT, RIGHT.

Q. YOU THEN SAID YOU DISCUSSED WITH MR. RANGANATHAN HOW YOU WERE GOING TO USE HIS REPORT. WHAT WAS THAT?

A. WELL, SOME OF THE — THE ONE THAT COMES TO [Tr. 117] MIND PROBABLY — I MEAN, OTHER THAN THE GENERAL DESCRIPTION OF WHAT THEY DID AND THAT IT WAS, YOU KNOW, A SMALLER MARKET — HE MAY HAVE USED THE TERM "NICHE." I DON'T REMEMBER — WE WERE DEFINITELY GOING TO USE HIS ANALYSIS OF THE COST OF GOODS SOLD, WHICH WAS THE $12.42 NUMBER IN THE YEARS 1990, 2000. CLEARLY WE WERE GOING TO USE THAT.

I THINK WE ASKED HIM WHETHER IT WAS REASONABLE TO DEGRADE THAT. BY "DEGRADE," I MEAN TO WORK YOUR WAY BACKWARDS IN TIME ASSUMING THAT AN INDEX OF 2 PERCENT WAS APPROPRIATE; SO WE BASICALLY SHAVED 2 PERCENT OFF OF IT EACH YEAR GOING BACK AS WHAT THEY WOULD HAVE — WHAT A REASONABLE COST WOULD HAVE BEEN FOR THEIR PRODUCTION OF THE INK. I THINK WE ASKED HIM ABOUT THAT. THAT WAS THE PRIMARY REASON FOR USING IT.

THERE WAS — ANOTHER ASPECT HAD TO DO WITH THE ESTIMATE OF THE 70 PERCENT MARKUP AT EACH LEVEL OF THE DISTRIBUTION CHAIN. WE HAD SIGNIFICANT DISCUSSIONS —

Q. IS THAT AN ACTUAL FACT, THAT 70 PERCENT MARKUP?

A. WHEN YOU SAY "ACTUAL FACT," I DON'T —

Q. IT'S REDUNDANT, I KNOW, BUT IS THAT A FACTUAL STATEMENT?

* * *

[Tr. 122] THEIR INK VERSUS TRIDENT'S, AS THOSE ADVANTAGES GET BIGGER, THEN YOU WOULD EXPECT THEM TO MOVE AS A LIMIT CLOSER TO THAT 100 PERCENT, AND YOU WOULD —AND, MOREOVER, YOU'D EXPECT THEM TO DO THAT IN A DUOPOLY SITUATION.

Q. AND THE GENERAL MILLS ACCOUNT IS AN EXAMPLE OF THE PRICE ADVANTAGES THAT LED YOU TO THAT CONCLUSION?

A. IT'S AN EXAMPLE OF ONE SOPHISTICATED CONSUMER THAT MADE THE DECISION THAT, AT A 45 PERCENT DISCOUNT OFF OF TRIDENT, THEY WERE WILLING TO SUFFER THE SLINGS AND AR-

ROWS AND THE THREATS OF LITIGATION, AND THEY BOUGHT IT; AND THEY WERE PERSUADED BY PRICE OVER AND ABOVE SERVICE, OVER AND ABOVE REPUTATION, OVER AND ABOVE A LOT OF OTHER THINGS THAT ARE LISTED BY MR. WILLIAMS.

Q. NOW, YOU MAY HAVE MENTIONED A COUPLE OF TIMES, THIS IS A TWO-PERSON MARKET AND A DUOPOLY. COULD YOU EXPLAIN WHAT YOU MEAN BY THAT AND WHO THOSE TWO PEOPLE ARE.

A. SURE. THE TWO MAJOR — AS I UNDERSTAND IT, FOR THIS V300 HIGH RESOLUTION INK, THE TWO MAJOR PLAYERS ARE TRIDENT AND INDEPENDENT WITH A NUMBER OF OTHER — OH, I THINK THERE WERE TWO MORE RECENT MANUFACTURERS, AT A MANUFACTURING LEVEL, BY [Tr. 123] THE NAME OF GRAPHIC CONTROLS AND SQUID.

Q. S-Q-U-I-B-B?

MR. O'CONNOR: NO. "D," LIKE A SQUID, LIKE THE ANIMAL. THAT'S WHERE THEY GET THE INK.

MR. WHITEHEAD: I'M SORRY.

MR. O'CONNOR: SQUID INK AS OPPOSED TO OCTOPUS INK, THEIR NO. 1 COMPETITOR AND CONGLOMERATE.

THE WITNESS: BA DAH BUM.

MR. WHITEHEAD: IN MY SPELLING, I LOST THE ANSWER.

WOULD YOU R''AD THE ANSWER BACK.

(THE RECORD WAS READ AS FOLLOWS:

"QUESTION: NOW, YOU MAY HAVE MENTIONED A COUPLE OF TIMES, THIS IS A TWO-PERSON

MARKET AND A DUOPOLY. COULD YOU EXPLAIN WHAT YOU MEAN BY THAT AND WHO THOSE TWO PEOPLE ARE. "ANSWER: SURE. THE TWO MAJOR — AS I UNDERSTAND IT, FOR THIS V300 HIGH RESOLUTION INK, THE TWO MAJOR PLAYERS ARE TRIDENT AND INDEPENDENT WITH A NUMBER OF OTHER — OH, I THINK THERE WERE TWO MORE RECENT MANUFACTURERS, AT A MANUFACTURING

* * *

[Tr. 125] MEAN?

A. WELL, "MARKET CLEARANCE" IS A TERM OF — A TRANSACTION OCCURRED AS OPPOSED TO THEORY, WHERE IT SHOULD OCCUR. YOU KNOW, THE MEETING OF THE MINDS OF WILLING BUYERS AND SELLERS IS GENERALLY A PERSUASIVE PIECE OF EVIDENCE, AND THAT'S — THAT'S WHY IT WAS PERSUASIVE TO GENERAL MILLS IN SPITE OF THE THREATS OF LITIGATION AND — AND ALL OF THE CHALLENGED CONDUCT, DECIDED TO EXECUTE, DECIDED TO ACTUALLY PURCHASE AT THAT MOMENT, SO THAT'S A DATA POINT THAT I USED.

Q. THIS WORD "DUOPOLY" YOU USED. WHAT DOES THAT MEAN AND WHERE DOES THAT COME FROM?

A. A DUOPOLY GENERALLY DESCRIBES A MARKET IN WHICH THERE ARE TWO SELLERS. IT COMES FROM THE GREEK.

Q. I'M NOT A GREEK SCHOLAR.

A. OKAY. SORRY. BUT THAT'S WHAT — IT JUST MEANS TWO SELLERS.

MR. O'CONNOR: DUO.

BY MR. WHITEHEAD:

Q. "DUOPOLY" DOESN'T HAVE A SPECIAL MEANING FOR YOU? IT'S JUST ANOTHER WAY OF DESCRIBING IN YOUR OPINION THAT THERE ARE TWO MAJOR SELLERS OF V300 INK, TRIDENT AND INDEPENDENT?

[Tr. 126] A. YEAH, I ATTRIBUTE NO ADDITIONAL CONNOTATIONS TO DUOPOLY OTHER THAN THEY'RE TWO SELLERS.

Q. SO IT TOOK ROUGHLY A LITTLE OVER TWO WEEKS FROM THE TIME YOU WERE FIRST CONTACTED BY MR. O'CONNOR UNTIL YOU DEVELOPED EXHIBIT 1 FOR SUBMISSION IN THIS CASE?

A. IT TOOK TWO WEEKS. I GUESS —

Q. FEBRUARY 12, ROUGHLY, TO MARCH 2ND, WHICH WAS THE DATE OF THE REPORT.

A. I THINK OUR MEETING WAS ON THE 19TH OR 20TH, AND THEN WE HAD ANOTHER MEETING WITH MR. RANGANATHAN ABOUT THE 25TH OR – 6ISH NEXT WEEK. AND THEN WE PRODUCED A REPORT AT THE END OF THE WEEK, WHICH IS PROBABLY MARCH 2, CLOSE TO IT. YEAH. SO IT WAS ABOUT TEN DAYS.

Q AND MR. RANGANATHAN, IN DISCUSSING WITH YOU HOW TO USE HIS REPORT, ASKED YOU TO MAKE A NUMBER OF ASSUMPTIONS THAT WERE CONTAINED IN HIS REPORT.

A. WELL, ACTUALLY, I DON'T KNOW THAT THAT'S THE — I ASKED HIM WHAT IT WOULD COST HIM TO MAKE THE PRODUCT, AND HE PRODUCED — AND I WANTED HIM TO ADDRESS THAT IN HIS REPORT, AND HE DID, AND THAT'S WHERE I CAME UP WITH THE 12.42; SO I GUESS I ASKED [Tr. 128] EVIDENCE WOULD BE MORE — HE WAS LOOKING TO OTHER EVIDENCE TO PROVIDE WHAT I'LL CALL

THE MARKET SHARE ASSUMPTION OR TO PROVIDE LIGHT ON THAT ISSUE, WHICH IS, YOU KNOW, IN A BUT-FOR WORLD WOULD THIS HAVE SHAKEN OUT AS THE TWO PLAYERS TAKE 90 PERCENT AND THE TWO SMALL ONES TAKE 10 OR SOME OTHER.

Q. I HAVE TO APOLOGIZE. I LOOKED AT MY NOTES OVER THE NOON HOUR, AND I AM QUITE CONFUSED OVER THE WAY IN WHICH YOU ARE USING BENCHMARK FORMAT.

AND I LOOKED AT THE EXHIBITS AGAIN WHERE YOU HAVE BENCHMARK INCOME, BENCHMARK PROFITS, BENCHMARK SALES, AND THEN A SUMMARY SHEET WHERE YOU HAVE "BENCHMARK INCOME" AT THE TOP.

PERHAPS YOU COULD HELP ME WITH THE RIGHT QUESTION TO ASK, BUT LET'S START WITH: WHAT IS THE DIFFERENCE BETWEEN A BENCHMARK FORMAT AND A MOST LIKELY OCCURRENCE FORMAT?

A. WELL, "MOST LIKELY OCCURRENCE" WOULD BE, IF I WERE TO TAKE A POSITION AND SAY "IN THE BUT-FOR WORLD, INDEPENDENT INK WOULD HAVE HAD EXACTLY 63.5 PERCENT OF THE MARKET SHARE." OKAY? THAT WOULD REQUIRE AN ANALYSIS OF WHO THE OTHER PLAYERS ARE AND SOME REASONABLE ESTIMATE OF WHAT SHARE THEY WOULD LIKELY OBTAIN.

I WASN'T ASKED TO DO THAT. MR. O'CONNOR

* * *

[Tr. 198] Q. DO YOU RECOGNIZE ANY ECONOMIC TREATISES AS AUTHORITATIVE IN THE FIELD IN WHICH YOU ARE TESTIFYING OF DAMAGES?

A. ANY ECONOMIC TREATISES?

Q. RIGHT.

A. THERE ARE FEW ECONOMIC TREATISES THAT ARE RELEVANT TO THE AREA OF DAMAGES IN THE CALCULATION OF LOST PROFITS. AS I THINK I SAID EARLIER, THE MOST RELEVANT DISCIPLINE AMONG THE MANY FINANCIAL SERVICES PROBABLY IS FINANCIAL ANALYSIS. PERHAPS ONLY IN THE AREA OF ANTITRUST, WHERE THE DEFINITION OF MARKETS AND THE DEFINITION OF SUBSTITUTABLE GOODS AND THE USE OF CONCEPTS LIKE CROSS ELASTICITY OF DEMAND ARE RELEVANT.

THE COURT REPORTER: I'M SORRY. START OVER. "THE DEFINITION OF SUBSTITUTABLE GOODS AND THE" —

THE WITNESS: CROSS ELASTICITY — I'LL SPELL THAT FOR YOU LATER — OF DEMAND.

OTHER THAN THAT, THE — THERE ARE FEW ECONOMIC PRINCIPLES, PER SE, THAT ARE USEFUL IN CALCULATION OF DAMAGE CLAIMS. THE MORE OF THOSE ARE PROBABLY CONSIDERED IN THE. AREA OF FINANCIAL ANALYSIS ALTHOUGH THERE ARE SOME RELATED CONCEPTS IN TERMS OF MANAGEMENT ACCOUNTING.

[Tr. 210] **REPORTER' CERTIFICATE**

I., TAMAR J. WOLFE, CSR NO. 8110, A CERTIFIED SHORTHAND REPORTER IN AND FOR THE STATE OF CALIFORNIA, DO HEREBY CERTIFY:

THAT PRIOR TO BEING EXAMINED, THE WITNESS DECLARED UNDER PENALTY OF PERJURY THAT THE TESTIMONY GIVEN IN THESE PROCEEDINGS WILL BE THE TRUTH, THE WHOLE TRUTH, AND NOTHING BUT THE TRUTH;

THAT SAID PROCEEDINGS WERE TAKEN BY ME IN SHORTHAND AT THE TIME AND PLACE HEREIN NAMED AND WAS THEREAFTER TRANSCRIBED INTO TYPEWRITING UNDER MY DIRECTION. SAID TRANSCRIPT BEING A TRUE AND CORRECT TRANSCRIPTION OF MY SHORTHAND NOTES.

I FURTHER CERTIFY THAT I HAVE NO INTEREST IN THE OUTCOME OF THIS ACTION.

DATED JUNE 7, 2001

/s/ TAMAR J. WOLFE
Tamar J. Wolfe
CSR No. 8110

EXHIBIT C
TO WYTSMA DECLARATION

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JAN P. WEIR, ESQ., (S.B. 106.652)
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Attorneys For Plaintiff and Counterdefendant
INDEPENDENT INK, INC.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

INDEPENDENT INK, INC., a California corporation Plaintiff vs. Illinois Tool Works, Inc., a Delaware corporation; and TRIDENT, INC., a Connecticut corporation; and DOES 1 through 50, Defendants.	Case No. CV 98-6686-NM (CWx) **INDEPENDENT INK, INC.'S RESPONSE TO ILLINOIS TOOL WORKS, INC.'S FIRST SET OF REQUESTS FOR ADMISSIONS**

Pursuant to Rule 36 of the Federal Rules of Civil Procedure, Plaintiff Independent Ink, Inc., by its attorneys, provides its response to Illinois Tool Works, Inc.'s First Set of Requests for Admissions.

REQUEST FOR ADMISSION NO. 1

Admit that ITW nor Trident sell piezoelectric printheads directly to end user customers.

RESPONSE TO REQUEST FOR ADMISSION NO. 1

Deny. OEMs which are owned by ITW sell piezoelectric printheads, incorporated in printing machines directly to end user customers.

REQUEST FOR ADMISSION No. 2

Admit that neither ITW nor Trident sell printing consumables directly to end user customers.

RESPONSE TO REQUEST FOR ADMISSION NO. 2

Deny. OEMs owned by ITW sell printing consumables directly to end user customers.

REQUEST FOR ADMISSION NO. 3

Admit that You have solicited and continues to solicit customers to return empty Trident containers sold by Defendants ("Trident containers") to be refilled with J12051 BC bar Code ink.

RESPONSE TO REQUEST FOR ADMISSION NO. 3

Admit.

REQUEST FOR ADMISSION NO. 4

Admit that You refill Trident containers with J12051 Bar Code ink.

RESPONSE TO REQUEST FOR ADMISSION NO. 4

Admit.

REQUEST FOR ADMISSION NO. 5

Admit that Trident containers You refill are labeled "single use only."

RESPONSE TO REQUEST FOR ADMISSION NO. 5

Admit.

REQUEST FOR ADMISSION NO. 6

Admit that Trident containers You refill are labeled "do not refill."

RESPONSE TO REQUEST FOR ADMISSION NO. 6

Admit.

REQUEST FOR ADMISSION NO. 7

Admit that Independent has knowledge that Trident's ink containers are marked "single use only" and "do not refill."

RESPONSE TO REQUEST FOR ADMISSION NO. 7

Admit.

REQUEST FOR ADMISSION NO. 8

Admit that customers of Independent have verbally mentioned that the ink containers they use in connection with their piezoelectric printing systems are marked "single use only" and "do not refill."

RESPONSE TO REQUEST FOR ADMISSION NO. 8

Admit.

REQUEST FOR ADMISSION NO. 9

Admit that distributors of Independent verbally mentioned that the ink containers used in association with Trident piezoelectric printheads are marked "single use only" and "do not refill."

RESPONSE TO REQUEST FOR ADMISSION NO. 9

Admit.

REQUEST FOR ADMISSION NO. 10

Admit that You informed, either verbally or in writing, third parties (including but not limited to customers using Defendants' ink containers), that the '226 Patent is invalid.

RESPONSE TO REQUEST FOR ADMISSION NO. 10

Deny.

REQUEST FOR ADMISSION NO. 11

Admit that You informed, either verbally or in writing, third parties (including but not limited to customers using Defendants' ink containers), that the '226 Patent is unenforceable.

RESPONSE TO REQUEST FOR ADMISSION NO. 11

Deny.

REQUEST FOR ADMISSION NO. 12

Admit that You informed, either verbally or in writing, third parties (including but not limited to customers using Defendants' ink containers), that the "single-use only" restriction on Defendants' ink containers is invalid.

RESPONSE TO REQUEST FOR ADMISSION NO. 12

Admit.

REQUEST FOR ADMISSION NO. 13

Admit that You informed, either verbally or in writing, third parties (including but not limited to customers using Defendants' ink containers), that the "single-use only" restriction on Defendants' ink containers is illegal.

RESPONSE TO REQUEST FOR ADMISSION NO. 13

Deny.

REQUEST FOR ADMISSION NO. 14

Admit that You informed, either verbally or in writing, third parties (including but not limited to customers using Defendants' ink containers), that the "do not refill" restriction on Defendants' ink containers is invalid.

RESPONSE TO REQUEST FOR ADMISSION NO. 4

Admit.

REQUEST FOR ADMISSION NO. 15

Admit that You informed, either verbally or in writing, third parties (including but not limited to customers using Defendants' ink containers), that the "do not refill" restriction on Defendants' ink containers is illegal.

RESPONSE TO REQUEST FOR ADMISSION NO. 15

Deny.

REQUEST FOR ADMISSION NO. 16

Admit that You are not the owner of the '226 Patent.

RESPONSE TO REQUEST FOR ADMISSION NO. 16

Admit.

REQUEST FOR ADMISSION NO. 17

Admit that You are not authorized or licensed to make, use, sell or offer for sell ink containers falling with any of the claims of the '226 Patent.

RESPONSE TO REQUEST FOR ADMISSION NO. 17

Admit.

REQUEST FOR ADMISSION NO. 18

Admit that Defendants have never made any misrepresentations to You regarding the '226 Patent.

RESPONSE TO REQUEST FOR ADMISSION NO. 18

Deny. Defendants have represented to the whole world, including Plaintiff, that the '226 patent is enforceable by virtue of the "single use license", "single use only", "do not refill" and "single use license under Trident patent rights including U.S. Pat. 5,342,226 do not refill" notation on Defendants' bottles.

REQUEST FOR ADMISSION NO. 19

Admit that Defendants have never made any misrepresentations to You regarding the scope of the "single-use only" restriction on Defendants' ink containers.

RESPONSE TO REQUEST FOR ADMISSION NO. 19

Deny. See answer to 18 above.

REQUEST FOR ADMISSION NO. 20

Admit that Defendants have never made any misrepresentations to You regarding the scope of the "do not. refill" restriction on Defendants' ink containers.

RESPONSE TO REQUEST FOR ADMISSION NO. 20

Deny. See answer to 18 above.

REQUEST FOR ADMISSION NO. 21

Admit that You have never relied on any alleged misrepresentation by Defendants regarding the '226 Patent.

RESPONSE TO REQUEST FOR ADMISSION NO. 21

Admit.

REQUEST FOR ADMISSION NO. 22

Admit that You have never relied on any alleged misrepresentation by Defendants regarding the scope of the "single-use license" restriction on Defendants' ink containers.

RESPONSE TO REQUEST FOR ADMISSION NO. 22

Admit.

REQUEST FOR ADMISSION NO. 23

Admit that You have never relied on any alleged misrepresentation by Defendants regarding the scope of the "do not refill" restriction on Defendants' ink containers.

RESPONSE TO REQUEST FOR ADMISSION NO. 23

Admit.

REQUEST FOR ADMISSION NO. 24

Admit that You did not rely on any statement contained in the May 1, 2000 letter from Elaine Pullen.

RESPONSE TO REQUEST FOR ADMISSION NO. 24

Admit.

REQUEST FOR ADMISSION NO. 25

Admit that neither ITW nor Trident compete in the "refill [ink] market."

RESPONSE TO REQUEST FOR ADMISSION NO. 25

Objection. The term "refill [ink] market" is not a term involved in this case and is not defined in this request for admission.

REQUEST FOR ADMISSION NO. 26

Admit that Applied Technologies Group, Master Packaging, Squid Ink Manufacturing, and Graphic Controls sell high resolution ink for use in the Trident piezoelectric printhead.

RESPONSE TO REQUEST FOR ADMISSION NO. 26

Deny. Plaintiff is aware that ATG, Squid and Graphic Controls have sold such inks in the past. Plaintiff is not aware of their current status.

REQUEST FOR ADMISSION NO. 27

Admit that a label may be used to apply a bar code to corrugated materials or kraft papers.

RESPONSE TO REQUEST FOR ADMISSION NO. 27

Admit.

REQUEST FOR ADMISSION NO. 28

Admit that piezoelectric technology is not capable of producing a Grade A barcode.

RESPONSE TO REQUEST FOR ADMISSION NO. 28

Deny.

REQUEST FOR ADMISSION NO. 29

Admit that piezoelectric technology is not capable of producing Grade B barcode.

RESPONSE TO REQUEST FOR ADMISSION NO. 29

Deny.

REQUEST FOR ADMISSION NO. 30

Admit that Xaar sells a non-Trident printhead which is capable of printing a barcode on corrugated materials and kraft papers.

RESPONSE TO REQUEST FOR ADMISSION No. 30

Deny. Plaintiff has no knowledge as to whether or not Xaar presently sells a non-Trident printhead capable of printing a barcode on corrugated materials and kraft paper. Plaintiff has no knowledge as to when Xaar may have sold such a printhead, nor how many have been sold, nor when they have been sold.

REQUEST FOR ADMISSION NO. 31

Admit that Markem sells a non-Trident printhead which is capable of printing a barcode on corrugated materials and kraft paper.

RESPONSE TO REQUEST FOR ADMISSION NO. 31

Admit.

REQUEST FOR ADMISSION NO. 32

Admit that Marconi Data Products sells a non-Trident printhead which is capable of printing a barcode on corrugated materials and kraft paper.

RESPONSE TO REQUEST FOR ADMISSION NO. 32

Deny. Plaintiff has no knowledge as to whether or not Marconi Data Products presently sells a non-Trident printhead capable of printing a barcode on corrugated materials and kraft paper. Plaintiff has no knowledge as to when Marconi Data Products may have sold such a printhead, nor how many have been sold, nor when they have been sold.

REQUEST FOR ADMISSION NO. 33

Admit that Trident was the first company to produce a printhead which was capable of printing a barcode directly on corrugated materials and kraft paper.

RESPONSE TO REQUEST FOR ADMISSION NO. 33

Deny.

REQUEST FOR ADMISSION NO. 35

Admit that Trident printheads are sold by distributors to end users outside the United States.

RESPONSE TO REQUEST FOR ADMISSION NO. 35

Admit.

REQUEST FOR ADMISSION NO. 36

Admit from 1992 to the present that the number of manufacturers of commercial ink jet ink has increased.

RESPONSE TO REQUEST FOR ADMISSION NO. 36

Admit.

REQUEST FOR ADMISSION NO. 37

Admit that from 1992 to the present that the number of distributors of commercial ink jet ink has increased.

RESPONSE TO REQUEST FOR ADMISSION NO. 37

Admit.

REQUEST FOR ADMISSION NO. 38

Admit that from 1992 to the present that the number of manufacturers of commercial ink jet printing systems, (including but not limited to impulse ink jet print head systems), has increased.

RESPONSE TO REQUEST FOR ADMISSION NO. 38

Admit.

REQUEST FOR ADMISSION NO. 39

Admit that from 1992 to the present that the number of distributors of commercial ink jet printing systems, including but not limited to impulse ink jet print head systems has increased.

RESPONSE TO REQUEST FOR ADMISSION NO. 39

Admit.

REQUEST FOR ADMISSION NO. 40

Admit that You are not aware of any instance where Defendants actually refused to repair or replace a printhead because of the use of ink not supplied by Trident.

RESPONSE TO REQUEST FOR ADMISSION NO. 40

Admit.

REQUEST FOR ADMISSION NO. 41

Admit that You are not aware of any instance where Defendants actually withheld goods from any distributor or end user.

RESPONSE TO REQUEST FOR ADMISSION No. 41

Admit.

REQUEST FOR ADMISSION No. 42

Admit that print-and-apply labeling apparatuses are reasonably interchangeable with impulse ink jet printheads for printing barcodes for use in coding outer cartons.

RESPONSE TO REQUEST FOR ADMISSION NO. 42

Deny. According to Defendants' own internal documents, these are distinct markets with separate advantages and disadvantages.

REQUEST FOR ADMISSION NO. 43

Admit that print-and-apply labeling apparatuses can be used interchangeably by end users with impulse ink jet printheads for coding outer cartons with barcodes.

RESPONSE TO REQUEST FOR ADMISSION NO. 43

Deny. See response to No. 42 above.

REQUEST FOR ADMISSION NO. 44

Admit that preprinted boxes can be used interchangeably by end users with impulse ink jet printheads for code outer cartons with barcodes.

RESPONSE TO REQUEST FOR ADMISSION NO. 44

Deny.

REQUEST FOR ADMISSION NO. 45

Admit that some distributors compare print-and-apply labeling apparatuses and impulse ink jet printheads for coding outer cartons with barcodes in marketing materials.

RESPONSE TO REQUEST FOR ADMISSION NO. 45

Object. Vague and ambiguous as to "some distributors."

REQUEST FOR ADMISSION NO. 46

Admit that print-and-apply labeling apparatuses are reasonably interchangeable with impulse ink jet printheads for coding outer cartons with barcodes.

RESPONSE TO REQUEST FOR ADMISSION NO. 46

Deny.

REQUEST FOR ADMISSION NO. 47

Admit that distributors of impulse ink jet printheads are presently marketing their products as a potential replacement for print-and-apply labeling apparatuses for coding outer cartons with barcodes.

RESPONSE TO REQUEST FOR ADMISSION NO. 47

Objection. Vague and ambiguous. No indication as to which distributors this request refers.

REQUEST FOR ADMISSION NO. 48

Admit that distributors of impulse ink jet printheads are presently marketing their products for coding outer cartons with barcodes as a potential replacement for preprinted cartons.

RESPONSE TO REQUEST FOR ADMISSION NO. 48

Objection. Vague and ambiguous. No indication as to which distributors this request refers.

REQUEST FOR ADMISSION NO. 49

Admit that end users consider the life cycle cost of consumables in making the decision whether to purchase a impulse ink jet systems or print-and-apply label system.

RESPONSE TO REQUEST FOR ADMISSION NO. 49

Object. Vague and ambiguous as to the term "end users." No indication as to which end users this request refers.

REQUEST FOR ADMISSION NO. 50

Admit that You are aware of instances where an end user customers switched away from an impulse ink jet system for purposes of coding outer cartons with barcodes.

RESPONSE TO REQUEST FOR ADMISSION NO. 50

Admit.

REQUEST FOR ADMISSION NO. 51

Admit that You are aware of instances where your ink appeared to have clogged an impulse ink jet printhead.

RESPONSE TO REQUEST FOR ADMISSION NO. 51

Deny. Any impulse ink jet printhead can become clogged with any ink if it is not properly maintained and periodically cleaned. This does not mean that it was clogging as a result of any particular characteristics of Plaintiff's ink.

REQUEST FOR ADMISSION NO. 52

Admit that You are aware of instances where ink produced by someone other than Defendants appeared to have clogged an impulse ink jet printhead.

RESPONSE TO REQUEST FOR ADMISSION NO. 52

Deny. Any impulse ink jet printhead can become clogged with any ink if it is not properly maintained and periodically cleaned. This does not mean that it was clogging as a result of any particular characteristics of Plaintiff's ink.

REQUEST FOR ADMISSION NO. 53

Admit that You are not aware of instances where ink produced by Defendants appeared to have clogged an impulse ink jet printhead.

RESPONSE To REQUEST FOR ADMISSION NO. 53

Deny. Any impulse ink jet printhead can become clogged with any ink if it is not properly maintained and periodically cleaned. Defendants' internal documents, including customer surveys, indicate clogging problems with Defendants' ink.

REQUEST FOR ADMISSION NO. 54

Admit that You are aware of instances where your ink appeared to have corroded an impulse ink jet printhead.

RESPONSE TO REQUEST FOR ADMISSION NO. 54

Deny.

REQUEST FOR ADMISSION NO. 55

Admit that You are aware of instances where ink produced by someone other than Defendants appeared to have corroded an impulse ink jet printhead.

RESPONSE TO REQUEST FOR ADMISSION NO. 55

Deny.

REQUEST FOR ADMISSION NO. 56

Admit that You are not aware of instances where ink produced by Defendants appeared to have corroded an impulse ink jet printhead.

RESPONSE TO REQUEST FOR ADMISSION NO. 56

Deny.

REQUEST FOR ADMISSION NO. 57

Admit that any time during the relevant period, there has been more than one manufacturer of commercial ink jets for

use in commercial ink jet printing systems, including, but not limited to, impulse ink jet print head systems.

RESPONSE TO REQUEST FOR ADMISSION NO. 57

Objection. This request for admission is a clever, but not clever enough, attempt by Defendants to insert a trick question. The market is not commercial ink jet ink, the market is ink for use in conjunction with Trident's piezoelectric printhead system. Overall sales of commercial ink jet ink are irrelevant to the issues in this lawsuit.

REQUEST FOR ADMISSION NO. 58

Admit that any time during the relevant period, there has been more than one distributor of commercial ink jet inks for use in commercial ink jet printing systems, including, but not limited to, impulse ink jet print head systems.

RESPONSE TO REQUEST FOR ADMISSION NO. 58

Objection. This request for admission is a clever, but not clever enough, attempt by Defendants to insert a trick question. The market is not commercial ink jet ink, the market is ink for use in conjunction with Trident's piezoelectric printhead system. Overall sales of commercial ink jet ink are irrelevant to the issues in this lawsuit.

REQUEST FOR ADMISSION NO. 59

Admit that any time during the relevant period, there has been more than two manufacturers of commercial ink jet inks for use in commercial ink jet printing systems, including, but not limited to, impulse ink jet print head systems.

RESPONSE TO REQUEST FOR ADMISSION NO. 59

Objection. This request for admission is a clever, but not clever enough, attempt by Defendants to insert a trick question. The market is not commercial ink jet ink, the market is ink for use in conjunction with Trident's piezoelectric

printhead system. Overall sales of commercial ink jet ink are irrelevant to the issues in this lawsuit.

REQUEST FOR ADMISSION NO. 60

Admit that any time during the relevant period, there have been more than two distributors of commercial ink jet inks for use in commercial ink jet printing systems, including, but not limited to, impulse ink jet print head systems.

RESPONSE TO REQUEST FOR ADMISSION NO. 60

Objection. This request for admission is a clever, but not clever enough, attempt by Defendants to insert a trick question. The market is not commercial ink jet ink, the market is ink for use in conjunction with Trident's piezoelectric printhead system. Overall sales of commercial ink jet ink are irrelevant to the issues in this lawsuit.

REQUEST FOR ADMISSION NO. 61

Admit that any time during the relevant period, there have been more than five manufacturers of commercial ink jet inks for use in commercial ink jet printing systems, including, but not limited to, impulse ink jet print head systems.

RESPONSE TO REQUEST FOR ADMISSION NO. 61

Objection. This request for admission is a clever, but not clever enough, attempt by Defendants to insert a trick question. The market is not commercial ink jet ink, the market is ink for use in conjunction with Trident's piezoelectric printhead system. Overall sales of commercial ink jet ink are irrelevant to the issues in this lawsuit.

REQUEST FOR ADMISSION NO. 62

Admit that any time during the relevant period, there have been more than five distributors of commercial ink jet inks for use in commercial ink jet printing systems, including, but not limited to, impulse ink jet print head systems.

RESPONSE TO REQUEST FOR ADMISSION NO. 62

Objection. This request for admission is a clever, but not clever enough, attempt by Defendants to insert a trick question. The market is not commercial ink jet ink, the market is ink for use in conjunction with Trident's piezoelectric printhead system. Overall sales of commercial ink jet ink are irrelevant to the issues in this lawsuit.

REQUEST FOR ADMISSION NO. 63

Admit that any time during the relevant period, there have been more than ten manufacturers of commercial ink jet inks for use in commercial ink jet printing systems, including, but not limited to, impulse ink jet print head systems.

RESPONSE TO REQUEST FOR ADMISSION NO. 63

Objection. This request for admission is a clever, but not clever enough, attempt by Defendants to insert a trick question. The market is not commercial ink jet ink, the market is ink for use in conjunction with Trident's piezoelectric printhead system. Overall sales of commercial ink jet ink are irrelevant to the issues in this lawsuit.

REQUEST FOR ADMISSION NO. 64

Admit that any time during the relevant period, there have been more than ten distributors of commercial ink jet inks for use in commercial ink jet printing systems, including, but not limited to, impulse ink jet print head systems.

RESPONSE To REQUEST FOR ADMISSION No. 64

Objection. This request for admission is a clever, but not clever enough, attempt by Defendants to insert a trick question. The market is not commercial ink jet ink, the market is ink for use in conjunction with Trident's piezoelectric printhead system. Overall sales of commercial ink jet ink are irrelevant to the issues in this lawsuit.

REQUEST FOR ADMISSION NO. 65

Admit that in the year 2000, Trident's sales of commercial ink jet ink for use in commercial ink jet printing systems, including, but not limited to, impulse ink jet print head systems, did not exceed 50% of the total market for commercial ink jet ink in that year.

RESPONSE To REQUEST FOR ADMISSION NO. 65

Objection. This request for admission is a clever, but not clever enough, attempt by Defendants to insert a trick question. The market is not commercial ink jet ink, the market is ink for use in conjunction with Trident's piezoelectric printhead system. Overall sales of commercial ink jet ink are irrelevant to the issues in this lawsuit.

REQUEST ADMISSION NO. 66

Admit that in the year 1999, Trident's sales of commercial ink jet ink for use in commercial ink jet printing systems, including, but not limited to, impulse ink jet print head systems, did not exceed 50% of the total market for commercial ink jet ink in that year,

RESPONSE TO REQUEST FOR ADMISSION NO. 66

Objection. This request for admission is a clever, but not clever enough, attempt by Defendants to insert a trick question. The market is not commercial ink jet ink, the market is ink for use in conjunction with Trident's piezoelectric printhead system. Overall sales of commercial ink jet ink are irrelevant to the issues in this lawsuit.

REQUEST FOR ADMISSION NO. 67

Admit that in the year 1998, Trident's sales of commercial ink jet ink for use in commercial ink jet printing systems, including, but not limited to, impulse ink jet print head systems, did not exceed 50% of the total market for commercial ink jet ink in that year.

RESPONSE TO REQUEST FOR ADMISSION NO. 67

Objection. This request for admission is a clever, but not clever enough, attempt by Defendants to insert a trick question. The market is not commercial ink jet ink, the market is ink for use in conjunction with Trident's piezoelectric printhead system, overall sales of commercial ink jet ink are irrelevant to the issues in this lawsuit.

REQUEST FOR ADMISSION NO. 68

Admit that in the year 1997, Trident's sales of commercial ink jet ink for use in commercial ink jet printing systems, including, but not limited to, impulse ink jet print head systems, did not exceed 50% of the total market for commercial ink jet ink in that year.

RESPONSE TO REQUEST FOR ADMISSION NO. 68

Objection. This request for admission is a clever, but not clever enough, attempt by Defendants to insert a trick question. The market is not commercial ink jet ink, the market is ink for use in conjunction with Trident's piezoelectric printhead system. Overall sales of commercial ink jet ink are irrelevant to the issues in this lawsuit.

REQUEST FOR ADMISSION NO. 69

Admit that in the year 1996, Trident's sales of commercial ink jet ink for use in commercial ink jet printing systems, including, but not limited to, impulse ink jet print head systems, did not exceed 50% of the total market for commercial ink jet ink in that year.

RESPONSE TO REQUEST FOR ADMISSION NO. 69

Objection. This request for admission is a clever, but not clever enough, attempt by Defendants to insert a trick question. The market is not commercial ink jet ink, the market is ink for use in conjunction with Trident's piezoelectric printhead system. Overall sales of commercial ink jet ink are irrelevant to the issues in this lawsuit.

REQUEST FOR ADMISSION NO. 70

Admit that in the year 1995, Trident's sales of commercial ink jet ink for use in commercial ink jet printing systems, including, but not limited to, impulse ink jet print head systems, did not exceed 50% of the total market for commercial ink jet ink in that year.

RESPONSE TO REQUEST FOR ADMISSION NO. 70

Objection. This request for admission is a clever, but not clever enough, attempt by Defendants to insert a trick question. The market is not commercial ink jet ink, the market is ink for use in conjunction with Trident's piezoelectric printhead system. Overall sales of commercial ink jet ink are irrelevant to the issues in this lawsuit.

REQUEST FOR ADMISSION NO. 71

Admit that in the year 1994, Trident's sales of commercial ink jet ink for use in commercial ink jet printing systems, including, but not limited to, impulse ink jet print head systems, did not exceed 50% of the total market for commercial ink jet ink in that year.

RESPONSE TO REQUEST FOR ADMISSION NO. 71

Objection. This request for admission is a clever, but not clever enough, attempt by Defendants to insert a trick question. The market is not commercial ink jet ink, the market is ink for use in conjunction with Trident's piezoelectric printhead system. Overall sales of commercial ink jet ink are irrelevant to the issues in this lawsuit.

REQUEST FOR ADMISSION NO. 72

Admit that in the year 1993, Trident's sales of commercial ink jet ink for use in commercial ink jet printing systems, including, but not limited to, impulse ink jet print head systems, did not exceed 50% of the total market for commercial ink jet ink in that year.

RESPONSE TO REQUEST FOR ADMISSION NO. 72

Objection. This request for admission is a clever, but not clever enough, attempt by Defendants to insert a trick question. The market is not commercial ink jet ink, the market is ink for use in conjunction with Trident's piezoelectric printhead system. Overall sales of commercial ink jet ink are irrelevant to the issues in this lawsuit.

REQUEST FOR ADMISSION NO. 73

Admit that in the year 1992, Trident's sales of commercial ink jet ink for use in commercial ink jet printing systems, including, but not limited to, impulse ink jet print head systems, did not exceed 50% of the total market for commercial ink jet ink in that year.

RESPONSE TO REQUEST FOR ADMISSION NO. 73

Objection. This request for admission is a clever, but not clever enough, attempt by Defendants to insert a trick question. The market is not commercial ink jet ink, the market is ink for use in conjunction with Trident's piezoelectric printhead system. Overall sales of commercial ink jet ink are irrelevant to the issues in this lawsuit.

REQUEST FOR ADMISSION NO. 74

Admit that end user customers are able to recognize the shape of the Trident containers as coming from a single source.

RESPONSE TO REQUEST FOR ADMISSION NO. 74

Deny. Plaintiff has no knowledge whatsoever as to whether or not end user customers are able recognize the shape of the Trident container as coming from a single source.

STRADLING YOCCA CARLSON

&

RAUTH

Dated: April 25, 2001

/s/ JULIE MCCOY AKINS
Julie McCoy Akins
Attorneys for Plaintiff
Independent Ink, Inc.

PROOF OF SERVICE

STATE OF CALIFORNIA)
) ss
COUNTY OF ORANGE)

I am a resident of the State of California, over the age of eighteen years, and not a party to the within action. My business address is Stradling Yocca Carlson & Rauth, 660 Newport Center Drive, Suite 1600, Newport Beach, CA 92660-6422. On April 25, 2001, I served the within documents:

INDEPENDENT INK, INC.'S RESPONSE TO ILLINOIS TOOL WORKS, INC.'S FIRST SET OF REQUESTS FOR ADMISSIONS

☐ I sent such document from facsimile machine (949) 725-4100 on April 25, 2001. I certify that said transmission was completed and that all pages were received and that a report was generated by facsimile machine (949) 725-4100 which confirms said transmission and receipt. I, thereafter, mailed a copy to the interested party(ies) in this action by placing a true copy thereof enclosed in sealed envelop(s) addressed to the parties listed below.

☒ by placing the document(s) listed above in a sealed envelope with postage thereon fully prepaid, in the United States mail at Newport Beach, addressed as set forth below.

☐ by personally delivering the document(s) listed above to the person(s) at the address(es) set forth below.

Martin J. Foley, Esq.
Laura A. Wytsma
SONNENSCHEIN NATH & ROSENTHAL
601 South Figueroa Street, Suite 1500
Los Angeles, California 90017-5704
(213) 623-9300
(213) 623-9924

G. Marc Whitehead
Gary Senner
Jordan Sigale
SONNENSCHEIN NATH & ROSENTHAL
8000 Sears Tower
Chicago, Illinois 60606

I am readily familiar with the firm's practice of collection and processing correspondence for mailing. Under that practice it would be deposited with the U.S. Postal Service on that same day with postage thereon fully prepaid in the ordinary course of business. I am aware that on motion of the party served, service is presumed invalid if postal cancellation date or postage meter date is more than on day after the date of deposit for mailing in affidavit.

I declare that I am employed in the office of a member of the bar of this court whose direction the service was made.

Executed on April 25, 2001, at Newport Beach, California.

/s/ KAREN DIOTTE
KAREN DIOTTE

EXHIBIT F
TO WYTSMA DECLARATION

ORIGINAL

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

INDEPENDENT INK, INC., A CALIFORNIA CORPORATION,	)	
PLAINTIFF,	)	
VS.	)	No. CV98-6686-NM (CWX)
TRIDENT, INC., BELIEVED TO BE A CONNECTICUT CORPORATION; AND DOES 1 THROUGH 50,	)	
DEFENDANTS.	)	
AND RELATED CROSS-ACTION	)	

CONFIDENTIAL TRANSCRIPT — ATTORNEYS' EYES ONLY

VOLUME I

DEPOSITION OF BARRY BRUCKER

LOS ANGELES, CALIFORNIA
MONDAY, JULY 24, 2000

REPORTED BY:

KAREN M. KLEIN
CSR NO. 5368, RDR

JOB NUMBER: 18979SON

LUDWIG KLEIN REPORTERS & VIDEO, INC.,
10868 KLING STREET
TOLUCA LAKE, CALIFORNIA 91602
800.540.0681 Fax 818.508.6326

* * *

[Tr. 120] Q. ARE YOU AWARE OF ANY PROBLEMS WITH TRIDENT PRINTING EQUIPMENT IN THE MORE RECENT PAST?

A. NO.

Q. DO YOU HAVE ANY KNOWLEDGE REGARDING TRIDENT'S MARKET SHARE IN THE INK MARKET AS A WHOLE?

A YES.

Q WHAT'S THAT KNOWLEDGE BASED ON?

A WELL, IT'S BASED, IN PART, ON MY DECLARATION THAT WAS SUBMITTED JUST RECENTLY.

Q WHEN YOU SAY IT'S BASED ON YOUR DECLARATION —

A AND SOME OF THE EXHIBITS THAT WERE ASSOCIATED WITH THEM.

Q OKAY. DO YOU HAVE ANY OTHER SOURCES FOR YGUR KNOWLEDGE AS TO TRIDENT'S MARKET SHARE OTHER THAN THE EXHIBITS THAT WERE ATTACHED TO THE DECLARATION?

A WELL, GIVEN THE FACT THAT IT'S MY JOB TO KNOW THIS INDUSTRY, AND I WOULD CONSIDER MYSELF KNOWLEDGEABLE IN THIS INDUSTRY OF INDUSTRIAL INK JET CODING THROUGH MY YEARS OF CONVERSATION WITH O.E.M.'S AND END USERS, IT'S VERY CLEAR WITHOUT A QUESTION OF A DOUBT THAT TRIDENT HAS ENJOYED AN INCREDIBLE AND UNIQUE NICHE MARKET.

Q ARE YOU AWARE OF RECENT ENTRIES INTO THIS [Tr. 121] NICHE MARKET?

A SURE.

Q WHO ARE YOU AWARE OF?

A I HAVEN'T SEEN THEIR EQUIPMENT, BUT I UNDERSTAND MARKEM, M-A-R-K-E-M, HAS A PIECE OF EQUIPMENT.

Q WHEN YOU SAY PIECE OF EQUIPMENT, IS THAT A PIEZO IMPULSE?

A YOU KNOW, I — I DON'T BELIEVE IT'S WITH A LIQUID INK. I BELIEVE IT'S WITH A SOLID INK, A WAX-TYPE INK. AND THEN A COMPANY XAAR, X-A-A-R. I DON'T KNOW IF THEY'VE SOLD ANY EQUIPMENT, BUT I'VE BEEN HEARING QUITE A LOT OF VERY RECENT RUMBLES AND SOME GOOD THINGS ABOUT THEIR PRINTHEAD'S CAPABILITIES, AND I BELIEVE THAT USES A LIQUID INK.

Q OKAY. ARE YOU FAMILIAR WITH ANY OTHER SYSTEMS?

A NONE THAT COME TO MIND.

Q ARE YOU FAMILIAR WITH MARCONI?

A I'M VERY FAMILIAR WITH MARCONI. THEY USE THE TRIDENT SYSTEM. THEY'RE YOUR LARGEST O.E.M.

Q DO YOU KNOW IF MARCONI HAS ANY OTHER SYSTEMS BESIDES THE TRIDENT SYSTEM?

A I DON'T KNOW. I HAVEN'T SEEN ANY.

Q MARCONI, OF COURSE, IS IN THIS MARKET

* * *

[Tr. 145] Q WHAT THIRD PARTY IS THAT?

A IDENTITY GROUP, PORELON A.K.A. MILIPORE, I THINK.

Q AT ISSUE IN THIS CASE, AS I UNDERSTAND IT, INDEPENDENT IS COMPLAINING ABOUT TRI-

DENT'S SINGLE USE ONLY LICENSE ON THE CONTAINER; IS THAT CORRECT?

A THAT'S RIGHT.

Q WHAT WOULD HAPPEN IF THERE WAS NO LONGER A SINGLE USE ONLY LICENSE ON THE TRIDENT CONTAINER? LET'S SAY, YOU KNOW, WE DECIDE NEXT WEEK TO SCRATCH IT OFF AND NO LONGER HAVE A SINGLE USE ONLY LICENSE.

A I THINK IT WOULD HELP SIGNIFICANTLY OPEN UP THE MARKET AND ALLEVIATE THE FEAR AMONGST THE END USERS.

Q AND THOSE END USERS THEN WOULD DO WHAT?

A THEY WOULD FEEL MORE COMFORTABLE KNOWING THAT THEY COULD EXERCISE THEIR RIGHT TO CHOOSE A SOURCE OF THEIR — THEIR OWN WISHES.

Q ARE THERE LOTS OF SOURCES THAT THEY COULD CHOOSE FROM?

A WELL, INDEPENDENT INK IS ONE SOURCE.

Q OKAY. ARE YOU AWARE OF ANOTHER SOURCE?

A YES.

Q WHAT SOURCE WOULD THAT BE?

A SQUID.

[Tr. 146] Q OKAY. ARE YOU AWARE OF ANY OTHER SOURCES?

A ONE IS APPLIED TECHNOLOGY GROUP.

Q ARE YOU AWARE OF ANY OTHER SOURCES?

A NOT SPECIFICALLY.

Q HAVE YOU EVER HEARD OF GRAPHIC CONTROLS?

A YES.

Q IS MARSH A POTENTIAL SUPPLIER?

A SUPPLIER OF —

Q OF REFILL INK NOT COMING FROM TRIDENT.

A WELL, IT'S PROHIBITED IN THEIR LICENSE, SO I DON'T BELIEVE THEY'RE ABLE TO DO THAT.

Q WELL, WE KNOW THAT THEY ARE.

A DO YOU?

Q SURE.

CAN I HAVE MR. BRUCKER'S DECLARATION, PLEASE? THE MOST RECENT ONE. APPARENTLY I FORGOT TO ASK THE FOLLOW-UP QUESTIONS.

YOU'RE AWARE OF GRAPHIC CONTROLS. I FORGOT TO ASK YOU IF YOU KNEW IF THEY COULD MAKE A INK CONSUMERS COULD TURN TO TO REFILL THESE BOTTLES IF TRIDENT DID AWAY WITH THE SINGLE USE ONLY LICENSE.

A I BELIEVE THEY MAKE AN INK THAT WORKS IN THE MACHINE.

Q WHILE WE'RE FINDING THAT, THE SOURCES THAT YOU HAVE FOR YOUR INK — YOU KNOW, YOU GO OUT AND YOU [Tr. 147] MAY JOB CERTAIN INKS AT CERTAIN SOURCES — ARE THEY POTENTIAL SOURCES FOR INKS TO END USERS IF THE SINGLE USE ONLY LICENSE IS OBLITERATED?

A I'M SORRY, I DON'T UNDERSTAND THE QUESTION. WE MAKE THIS INK.

Q I KNOW YOU DO. BUT IN SOME INSTANCES, YOU TOLD ME EARLIER THAT YOU GO TO VARIOUS

PEOPLE THAT YOU KNOW OR YOU FOUND IN THOMAS'S REGISTER OR VARIOUS CHEMICAL MANUFACTURERS OR PEOPLE THAT YOU'VE MET AT TRADE SHOWS TO MAKE INK ON CERTAIN OCCASIONS. IS THAT GROUP OF PEOPLE THAT YOU MENTIONED BEFORE THAT YOU COULD TURN TO FOR THE PRODUCTION OF INK ALSO AMONG THE PEOPLE THAT WOULD BENEFIT FROM THE OBLITERATION OF THE SINGLE USE ONLY LICENSE?

A POSSIBLY.

Q THAT WOULD BE ANOTHER POTENTIAL CHOICE FOR CONSUMERS?

A IT COULD BE.

Q NOT NECESSARILY WITH RESPECT TO WHATEVER INK YOU'RE MAKING NOW, BUT IN GENERAL, INKS THAT WOULD BE COMPATIBLE WITH TRIDENT SYSTEMS, IS THERE ANY TECHNICAL RAMP-UP TIME THAT YOU NEED TO PRODUCE THAT INK?

A IT'S A MATTER OF EXPERIMENTATION AND TESTING IT IN A HEAD. I COULDN'T TELL YOU WHETHER IT SHOULD [Tr. 148] TAKE TWO WEEKS OR TWO YEARS TO DEVELOP. EVERY COMPANY IS WHERE THEY ARE TECHNOLOGYWISE.

Q WELL, BASED ON THE — THE RULING ON THE INK PATENT IN THIS CASE, SOMEBODY COULD TAKE A LOOK AT THE PUBLIC RECORD WITH RESPECT TO WHAT HAPPENED THERE AND PRETTY MUCH USE THAT AS A ROAD MAP TO MAKE THEIR OWN INK, COULDN'T THEY?

A I DON'T KNOW WHETHER THEY — THEY COULD OR NOT. INK IS A LITTLE BIT MORE COMPLEX THAN PUTTING IT INTO A BATHTUB AND STIRRING IT WITH A BROOM STICK WITH THE

RIGHT INGREDIENTS. SO IT DOES TAKE SOME — SOME TECHNOLOGY, BUT THERE ARE COMPANIES OUT THERE THAT DO HAVE THAT TECHNOLOGY, NO QUESTION ABOUT IT.

Q WOULD YOU CHARACTERIZE IT AS A FEW DOZEN COMPANIES THAT HAVE THAT CAPABILITY?

A I WON'T CHARACTERIZE HOW MANY COMPANIES ARE OUT THERE.

Q IS THAT BECAUSE YOU DON'T KNOW OR —

A I DON'T KNOW SPECIFICALLY THE CAPABILITIES OF ALL THE COMPANIES OR ALL MY COMPETITORS, ALL MY SUPPLIERS, WHETHER THIS IS A NICHE FOR THEM OR NOT. IT'S — IT HASN'T BEEN IMPORTANT FOR ME TO KNOW.

Q BUT THERE ARE — THERE IS A GROUP OF PEOPLE OUT THERE THAT COULD COME IN AND OFFER VARIOUS CHOICES TO CONSUMERS TO REFILL THE TRIDENT INK BOTTLE [Tr. 149] IF THERE WAS NO SINGLE USE ONLY LICENSE?

A IF THEY DIDN'T FEEL THEY'D BE GETTING SUED BY I.T.W., I'M SURE THERE WOULD BE.

MR. SIGALE: LET'S GO AHEAD AND MARK THIS AS EXHIBIT 21, PLEASE.

(DEFENDANT'S EXHIBIT 21 WAS MARKED BY THE CERTIFIED SHORTHAND REPORTER.)

BY MR. SIGALE:

Q MR. BRUCKER, YOU HAVE EXHIBIT 21 BEFORE YOU?

A I DO.

Q DO YOU RECOGNIZE EXHIBIT 21?

A SURE.

Q WHAT IS IT?

A IT'S THE DECLARATION — MY DECLARATION.

Q THAT WAS RECENTLY FILED WITH THE COURT IN THIS CASE?

A A COUPLE WEEKS AGO, I THINK.

Q TAKE A LOOK AT EXHIBIT 5 FOR ME.

A OKAY.

Q HAVE YOU SEEN THIS LETTER BEFORE?

A YES, I HAVE.

Q OKAY. REMEMBER I'D ASKED YOU IF MARSH WAS ONE OF THE PEOPLE WHO COULD COME IN WITH THEIR OWN INK?

A YES.

* * *

[Tr. 191] Q AND ARE THERE SOME CONSUMERS THAT ARE WILLING TO BUY THE MOTOROLA POWER P.C. CHIP IN A MAC COMPUTER?

A YES, INDEED.

Q LET'S BRING THAT BACK NOW TO THIS MARKET.

A SURE.

Q ARE THERE SOME SELLERS WHO ARE WILLING TO PUT BAR CODES ON THEIR CARTONS BY USING THERMAL TRANSFER LABELS?

A SURE.

Q ARE THERE SOME END USERS THAT ARE WILLING TO PUT DIFFERENT MARKINGS ON THEIR BOXES BY USING VALVEJET?

A NOT IF THEY WANT A BAR CODE.

Q IF THEY WANT A BAR CODE, WHAT OPTIONS ARE THERE OPEN TO THEM BESIDES A TRIDENT SYSTEM?

A PRETTY MUCH FOR INK JET, IF THEY WANT TO GO THE INK JET ROUTE, TRIDENT PRETTY MUCH — POSSIBLY UP UNTIL VERY RECENT WITH MARKEM AND MAYBE XAAR COMING OUT WITH A PRODUCT, TRIDENT OWNED THE MARKET. THEY HAD IT.

Q TRIDENT CREATED THE MARKET.

A THEY OWNED THE MARKET.

Q WAS THERE ANOTHER PIEZOELECTRIC IMPULSE INK JET BEFORE TRIDENT CAME OUT ON THE MARKET WITH ONE?

* * *

[Tr. 205] THINK CRAYONS WILL WORK.

A OKAY.

Q WHEN YOU'RE TRYING TO PUT — BECAUSE YOU FOCUSED ON THIS HIGH END PRINTING ISSUE.

A OKAY

Q WITH BAR CODES AND SAYING THAT VALVEJET WON'T DO THE BAR CODING JOB.

A THAT'S RIGHT.

Q BUT WITH RESPECT TO BAR CODING, CERTAINLY LABELING WILL WORK, AND THERMAL PRINTING ON LABELS WILL WORK TO GET A BAR CODE ON THE BOX; IS THAT CORRECT?

A YES.

Q AND ALSO THE TRIDENT SYSTEM; IS THAT CORRECT?

A YES.

Q AND NOW POTENTIALLY THERE'S THIS ENTRANT, XAAR. THEY ALSO WERE CLAIMING THAT THEY'LL BE ABLE TO PUT A BAR CODE ON A BOX.

A SO I'VE READ.

Q AND THERE MAY BE ONE OR TWO OTHER POTENTIAL ENTRANTS THAT —

A THERE MAY BE.

Q THEN ALL OF THESE PEOPLE HAVE ALTERNATIVES FOR HAVING A BAR CODE ATTACH SOMEHOW TO A BOX —

* * *

[Tr. 207] THEM?

A I'VE HEARD OF THEM.

Q INTERMEC?

A I'VE HEARD OF THEM.

Q THERE ARE A NUMBER OF OTHER PEOPLE THAT DO LABELING. WE SAW THE LOVESHAW LABELING SYSTEM AS WELL.

A SURE.

Q AND THOSE ARE AMONG THE ALTERNATIVES AVAILABLE FOR GETTING BAR CODES ON THE OUTSIDE OF A CARTON.

A YES.

Q NOW, IN THE SECOND — FIRST AND SECOND AMENDED COMPLAINTS, THERE'S AN ALLEGATION

REGARDING TYING OF VARIOUS PRODUCTS, AND THERE'S A SIMILAR ALLEGATION IN YOUR MOTION FOR SUMMARY JUDGMENT THAT TRIDENT HAS TIED THE INK TO THE INK BOTTLE. ARE YOU AWARE OF THAT ALLEGATION?

A YES.

Q SO IN THAT CASE, THE PRODUCT THAT PEOPLE ARE BEING FORCED TO BUY IS INK TO GET THE CONTAINER. IS THAT YOUR CONTENTION?

A I'M A LITTLE CONFUSED BY SEMANTICS THERE.

Q OKAY.

A SO

* * *

[Tr. 225] ***WITNESS'S CERTIFICATE***

I AM THE WITNESS IN THE FOREGOING DEPOSITION. I HAVE READ THE FOREGOING DEPOSITION AND HAVING MADE SUCH CHANGES AND CORRECTIONS AS I DESIRE, I CERTIFY THAT THE SAME IS TRUE OF MY OWN KNOWLEDGE, EXCEPT AS TO THOSE MATTERS WHICH ARE THEREIN STATED UPON MY INFORMATION OR BELIEF, AND AS TO THOSE MATTERS, I BELIEVE IT TO BE TRUE.

I DECLARE UNDER PENALTY OF PERJURY UNDER THE LAWS OF THE STATE OF CALIFORNIA THAT THE FOREGOING IS TRUE AND CORRECT.

EXECUTED ON AUGUST 9, 2000, AT GARDINA, CA.

/S/ BARRY BRUCKER
Barry Brucker

[Tr. 226] REPORTER'S CERTIFICATE

I, KAREN M. KLEIN, CSR NO. 5368, RDR, A CERTIFIED SHORTHAND REPORTER IN AND FOR THE STATE OF CALIFORNIA, DO HEREBY CERTIFY:

THAT PRIOR TO BEING EXAMINED, THE WITNESS NAMED IN THE FOREGOING PROCEEDINGS WAS BY ME DULY SWORN TO TESTIFY TO THE TRUTH, THE WHOLE TRUTH, AND NOTHING BUT THE TRUTH;

THAT SAID PROCEEDINGS WERE TAKEN BY ME IN SHORTHAND AT THE TIME AND PLACE HEREIN NAMED AND WAS THEREAFTER TRANSCRIBED INTO TYPEWRITING UNDER MY DIRECTION, SAID TRANSCRIPT BEING A TRUE AND CORRECT TRANSCRIPTION OF MY SHORTHAND NOTES.

I FURTHER CERTIFY THAT I HAVE NO INTEREST IN THE OUTCOME OF THIS ACTION.

DATED: AUGUST 4, 2000

/S/ KAREN M. KLEIN
Karen M. Klein
CSR 5368, RDR

EXHIBIT H
TO WYTSMA DECLARATION

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

INDEPENDENT INK, INC., a California corporation Plaintiff vs. TRIDENT, INC., believed to be a Connecticut corporation, and DOES 1 through 50, Defendants	Case No. CV98-6686-NM (CWX)
TRIDENT, INC., a Connecticut corporation Counterclaimant, vs. INDEPENDENT INK, INC., a California corporation, and ROES 1 through 10, Counterdefendants.	

THE DEPOSITION OF THOMAS BARNETT

St. Louis, Missouri
Monday, July 31, 2000

Reported by:

CHERI A. RAIFFIE, CSR
Notary Public
JOB No. 571580A

* * *

[Tr. 19] Q. To the end user?

MR. RUSSELL: Same objection.

A It depends on the end user's decision as to whether there's an advantage or a disadvantage. I mean, our industry would tell you that there's a cost advantage of using the Peizo Electric versus a label. The label industry would probably tell you that there is a quality advantage of using a label and more reliability issue.

Q. Did you have to deal with that issue with your customers: in other words, did you have to convince your customers to use the Peizo Electric versus the labeling?

A. Yes, sir.

Q. And were you successful in doing that?

A. Generally we were successful. We lost business to people who sold labels.

Q. And when you were successful was it because of the costing issue?

MR. RUSSELL: Objection; vague.

A. I can't say for sure why the customer bought but I mean obviously from our perspective the selling points were that we were a cost -effective solution.

BY MR. O'CONNOR:

Q. Other than cost were there any uses for the direct Peizo Electric printing that would not be serviceable by the labeling industry?

* * *

[Tr. 45] codes directly on a package?

A I have no specific knowledge today and I have not been involved since May of '99.

Q. While you were president of Marsh did Marsh begin selling a print-and-apply labeling system?

A. Yes.

Q. And Marsh was touting that print-and-apply label system for use in bar coding; is that correct?

A. Yes.

Q. Returning your attention to Exhibit 10003; do you still have it?

A. Yes, sir.

Q. I believe you had said that you did not know who Cap Ventures was; is that correct?

A. I have a recollection of the name but I don't know specifically who they are.

Q. Do you have any idea how they gathered the data that is reflected in this exhibit of 10003?

A. No, sir.

Q. Do you have any idea of when they gathered this data for the 1999 projection?

A. No, sir.

Q. Do you have any idea how they defined the high resolution inkjet carton coding market to make these numbers?

A. No, sir.

[Tr. 72] NOTARIAL CERTIFICATE

STATE OF MISSOURI)
) SS
CITY OF ST. LOUIS)

I, CHERI A RAIFFIE, a Certified Shorthand. Reporter and Notary Public within and for the State of Missouri, do hereby certify that there came before me at the law offices of Bryan Cave, 1 Metropolitan Square, 211 N. Broadway, St. Louis.

THOMAS BARNET,

Who was by me first duly sworn to testify to the truth and nothing but the truth of all knowledge touching and concerning the matters in controversy in this cause; that the witness was thereupon carefully examined under oath and said examination was reduced to writing by me; and that this deposition is a true and correct record of the testimony given by the witness.

I further certify that I am neither attorney nor counsel for nor related nor employed by any of the parties to the action in which this deposition was taken; further that I am not a relative or employee of any attorney or counsel employed by the parties hereto or financially interested in this action.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this 9th day of August, 2000.

_____

Cheri A. Raiffie, CSR
(Notary Public)

EXHIBIT I
TO WYTSMA DECLARATION

UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

INDEPENDENT INK, INC., a California corporation, Plaintiff, vs. TRIDENT, INC., believed to be a Connecticut corporation and DOES 1-50, inclusive, Defendants.	) No.	CV98-6686-NM (x)

DEPOSITION OF ELAINE PULLEN

Newport Beach, California
Tuesday, August 22, 2000

VOLUME I

Reported by:

SHERYL HILTON MEYER
CSR No. 2852
JOB No. 572230

* * *

[Tr. 32] that would be there, but I couldn't say if it would actually work in our printhead. I haven't tested that.

BY MR. O'CONNOR:

Q Do you know if anyone has?

A Not to my knowledge.

Q All right. And is there Xaar printhead technology utilized for the same purpose as the Trident technology?

A Yes, it is.

Q Are there any advantages to the Trident technology over the Xaar technology?

A That depends on the application.

Q Let's say for carton coding.

A There are differences that may appear as competitive advantages for some customers and not to others.

Q Okay. What differences do you consider to be competitive advantages for Trident?

A I consider Trident's advantages to be that we have a very rugged stainless steel and metal printhead that's repairable that prints at high speed and is a proven technology.

Q What, if any, advantages are there of the Trident technology over the Spectra technology?

A Again our printhead is repairable which means [Tr. 33] the orifice plate can be removed and cleaned and replaced which is a benefit to the end user because the environments that these products are in are very dirty and dusty, a lot of vibration, and it's not an office environment that's clean and under good control. So that's economically an advantage for the end user. I think the Spectra printhead has a metal construction. It's a very good product. It's well built.

Q Do you know what percentage of the carton coding — I'll call it piezoelectric printhead direct printing technology — is serviced by Xaar as opposed to Trident?

MR. SIGALE: Objection. Ambiguous. Objection. Calls for a legal conclusion and lacks foundation.

BY MR. O'CONNOR:

Q Do you know?

A I don't have Xaar's numbers.

Q All right. Trident sells to OEMs, correct?

A Yes, we do.

Q And those OEMs in turn make actual printers that are then utilized with the carton coding and other types of direct printing; is that correct?

A Correct.

Q And does Xaar/MIT — do they make their own printers?

[Tr. 34] A No. Xaar and MIT just make the printheads and the inks, and they have OEMs — some of them, the same OEMs as Trident who build the system.

Q Okay. Do they have any OEMs that Trident doesn't have?

A Yes, they do, many.

Q Do you know who those are?

A They have Weber, for example. They're a significant company in the industrial market.

Q Okay. Who has Weber? Xaar?

A Xaar.

Q And do you know what percentage of the end users receive — use Weber equipment?

A I do not.

Q All right. Any other company, any other OEMs that use the Xaar printheads?

A In the carton coding market?

Q Yes, in the carton coding market.

A Domino.

Q Domino, okay. Any others?

A I think there are some other smaller OEMs that they have. I don't recall the name. There are two other small ones,

but Weber and Domino are both significant companies worldwide.

Q Does Spectra sell to OEMs?

[Tr. 35] A Spectra sells through its parent company Markem, and Markem sells direct to end users typically and may have one or two distributors, but the majority of the sales are direct to end users.

Q Okay. And do you know what portion of the direct printing carton coding Marsh is serviced by the Markem products?

MR. SIGALE: Objection to the extent it calls for a legal conclusion and lacks foundation.

THE WITNESS: I don't have any information on that.

BY MR. O'CONNOR:

Q Okay. Is there anybody at Trident that would have any information about relative market shares of Weber, Domino and Markem?

A That's not available information to us, no.

Q Does Trident rely on any services such as Cap Ventures to at least get some information concerning what percentage of the markets are occupied by competitors of Trident?

A It's one of many sources of information that we would look at, but I quite honestly don't think that any of them portray the market very accurately or completely.

Q What other sources do you look at besides Cap Ventures?

* * *

[Tr. 37] know?

A The only customer I'm aware of in the case coding market is ATG in Belleville, Illinois.

Q Do you know if they are a significant — such a significant enough of end users in the carton coding market?

MR. SIGALE: Objection to the extent it calls for a legal conclusion, and objection, lack of foundation.

THE WITNESS: Yes, I don't have any market data on them.

BY MR. O'CONNOR:

Q Okay. You mentioned Aprion.

A Correct.

Q And again do they make printheads?

A Yes, they do.

Q And are they piezoelectric printheads?

A Yes.

Q And do they make printers?

A They do make printers also, but not for the case coding market at this stage.

Q Okay. For whom does Aprion make printheads?

A They have, I think, two or three partners where their focus at the moment is on things like electronic publishing, book printing, textile printing, but they're

* * *

[Tr. 39] Q Okay. You mentioned Hewlett-Packard.

A Right.

Q Does Hewlett-Packard make piezoelectric printheads that are used in carton coding?

A Hewlett-Packard makes a thermal printhead that is used in carton coding.

Q They don't make piezoelectric?

A Correct.

Q Okay. And you mentioned label printers. Were there any others that you had in mind besides Hewlett-Packard?

A Data Products I mentioned also.

Q Okay.

A And Marsh have developed product, a piezo printhead.

Q And do you know if Marsh's piezo printhead is used in carton coding?

A Yes, it is.

Q Okay. And do you know when they first came out with that?

A The first time I saw it launched was at a trade show, I think, in — last fall.

Q Okay. Do you know if they're selling any of those?

A Yes, I believe they are.

* * *

[Tr. 101] evidence. Foundation. Calls for a hypothetical.

THE WITNESS. Well, we just — we wouldn't look at the market that way because there — a label could be and is a — more of a competitive challenge for us than another ink jet product.

BY MR. O'CONNOR:

Q Okay. But I'm just talking about ink jet, this technology, the ink jet technology. Do you have any approximate understanding what — knowledge as to whether they would be more than 10 percent approximately?

MR. SIGALE: Objection. Ambiguous.

10 percent of what, Mr. O'Connor?

MR. O'CONNOR: 10 percent of the overall market.

THE WITNESS: In —

BY MR. O'CONNOR:

Q In piezoelectric ink jet only.

A Well, in revenue, number of heads sold?

Q Number of heads sold.

A Number of installations?

Q Yes. Number of heads sold, number of installations.

A Uh-huh.

MR. SIGALE: Objection. Compound. Objection. Calls for a legal conclusion.

* * *

[Tr. 207] I, the undersigned, a Certified Shorthand Reporter of the State of California, do hereby certify:

That the foregoing proceedings were taken before me at the time and place herein set forth; that any witnesses in the foregoing proceedings, prior to testifying, were placed under oath; that a verbatim record of the proceedings was made by me using machine shorthand which was thereafter transcribed under my direction; further, that the foregoing is an accurate transcription thereof.

I further certify that I am neither financially interested in the action nor a relative or employee of any attorney of any of the parties.

IN WITNESS WHEREOF, I have this date subscribed my name.

Dated:

SHERYL HILTON MEYER
CSR No.2852

Supreme Court, U.S.
FILED
AUG 4 - 2005
OFFICE OF THE CLERK

No. 04-1329

In the Supreme Court of the United States

OCTOBER TERM, 2005

ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.,

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

On a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

JOINT APPENDIX

VOLUME 2 OF 3

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PETITION FOR CERTIORARI FILED APRIL 4, 2005
CERTIORARI GRANTED JUNE 20, 2005

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EXHIBIT M
TO WYTSMA DECLARATION

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UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

INDEPENDENT INK, INC., a California corporation Plaintiff vs. TRIDENT, INC., believed to be a Connecticut corporation,and DOES 1 through 50, Defendants.	) CASE NO. CV98—6686 NM (CWx)))) **INDEPENDENT, INK'S**) **MEMORANDUM OF**) **POINTS AND AUTHORITIES**) **IN SUPPORT OF ITS MOTION**) **FOR SUMMARY JUDGMENT**) **OF (1) PER SE VIOLATION OF**) **THE ANTITRUST LAWS BY**) **PATENT TYING WITH THE**) **SINGLE USE LICENSE ON**) **THE PATENT WHICH**) **TRIDENT/ITW ARE**) **ASSERTING AGAINST**
TRIDENT, INC., a Connecticut corporation Counterclaimant, vs.	) **INDEPENDENT INK; (2) PER**) **SE VIOLATION OF THE**) **ANTITRUST LAWS BY**) **PATENT TYING WITH THE**) **CONTRACTS BETWEEN**) **TRIDENT/ITW AND THEIR**) **OEM CUSTOMERS; (3) PER**) **SE VIOLATION OF THE -**) **ANTITRUST LAWS BY**) **CONTRACT TYING AND (4)**) **NONINFRINGEMENT**

	) Date:	January 8, 2001
INDEPENDENT INK, INC.,	) Time:	10:00 a.m.
A California corporation,	) Courtroom:	11
and DOES 1 through 10	) Hon. Nora M. Manella	
	)	
Counterdefendants.	)	
	)	

CONTAINS CONFIDENTIAL—INFORMATION SUBJECT TO PROTECTIVE ORDER TO BE FILED UNDER SEAL. NOT TO BE OPENED NOR THE CONTENTS REVEALED EXCEPT (1) TO THE COURT AND THEN RESEALED (2) BY AGREEMENT OF THE PARTIES, OR (3) BY PRIOR ORDER OF THIS COURT

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I. INTRODUCTION

This is a four part motion. The first two seek summary judgment against Trident/ITW for patent tying. The third seeks summary judgment against Trident/ITW for contract tying and the fourth is for summary judgment of non infringement on Trident/ITW's patent claim.[1]

The relevant market is ink for use in Trident's patented ink jet system. This system is protected by a number of patents, one of which is the patent on its ink reservoir and ink bottle which is the subject of Trident/ITW's single use license; its patent suit against Independent, and one of Independent's patent tying claims.

As a precondition to purchasing and selling Trident/ITW's patented system and obtaining a license under those patents, Trident/ITW's customers are only allowed to sell ink purchased from Trident/ITW. This is illegal patent tying. Because of Trident/ITW's market power, this also constitutes illegal contract tying. Because the licenses also extend to any customer of Trident/ITW, the end users are also prohibited from using ink which does not come from Trident/ITW.

Trident/ITW's single use license is a separate patent tying offense. It directly prohibits end users from purchasing non-infringing ink from anyone to refill Trident/ITW patented bottles.

As the Court may recall from the Markman hearing, this is a case wherein the defendants Trident and ITW manufacture a patented piezoelectric ink jet print head system which is then sold to original equipment manufacturers (OEMs)

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[1] This introduction does not cite to the record or legal authorities. These are contained in the sections relating to each separate ground. The introduction is intended to give the Court an overview.

who incorporate the print head system into printers for use in printing bar codes on craft paper. The printers are then sold through a network of distributors to end users who are generally large manufacturing concerns such as Proctor & Gamble. Trident/ITW also manufacture "consumables" for use with these printers. The primary consumable is specially formulated ink.

The consumables are a significant portion of Trident/ITW's revenue stream and accordingly, Trident/ITW have engaged in a comprehensive scheme or program to prevent others from selling ink for use in their patented system. They refer to these other ink manufacturers as "pirates".

Trident/ITW have made no secret of the fact that they will take whatever action is necessary to protect this all important revenue stream from the sale of their ink. Included in their program is a requirement that OEMs who purchase Trident/ITW equipment sign an agreement that those OEMs will only purchase and sell Trident/ITW ink to their customers. They enforce these contracts through threats of litigation and by threatening to withhold print heads. They have specifically done both with regard to their largest OEM customer, Marsh.

They have also utilized a patent which they have on their ink reservoir and container system to prohibit end users from refilling their Trident/ITW containers with ink from any source other than Trident/ITW.

(Trident/ITW's comprehensive plan for preventing others from competing with Trident/ITW in the market for ink to be used in conjunction with Trident/ITW's system is attached hereto as Exhibit 1.)

Trident/ITW, by virtue of one of their patents, have a legal monopoly on their reservoir and bottle or container. In addition, Trident/ITW have enjoyed a virtual monopoly in

the market for piezoelectric ink jet printers for use in carton coding (i.e. bar codes placed directly on cartons).

According to the testimony of Trident/ITW's current president, Elaine Pullen, Trident/ITW had over a 90% share of the market for industrial piezoelectric ink jet printers at the time that Trident/ITW entered into the contracts with the OEMs which require that they purchase all of their consumables from Trident/ITW.

In this litigation, Trident/ITW are attempting to assert a claim of patent infringement against Independent Ink because Independent Ink has sold refill ink to Trident/ITW customers (OEMs) and to end users of the Trident/ITW patented print head system.

While Trident/ITW originally asserted infringement of their ink formula patents against Independent Ink, they have since withdrawn that allegation in light of the Court's Markman decision.

Independent's position in this case is that Trident/ITW have engaged in a number of antitrust violations. These include:

1. Tying, in that Trident/ITW have been able to use their market power in their patented system to compel their OEM customers to sign contracts whereby they agreed to only purchase and sell Trident/ITW ink.

2. Threatening and pursuing unfounded litigation on their ink formula patents when they knew they had little or no chance of succeeding because Trident/ITW's patents could not possibly logically be construed in such a way as to cover the ink which Trident/ITW had accused of infringing. Examples of this litigation include Trident/ITW's institution of litigation against Independent Ink in Belleville, Illinois as well as their ill-fated claims in this case.

3. Threatening litigation and repercussions, such as the withholding of print heads from Trident/ITW customers

(such as Marsh), if those customers did not cease and desist from selling ink other than Trident/ITW's ink.

4. Conspiring with their OEMs to keep "pirates" from selling non-Trident ink for use in Trident/ITW's system.

5. Placing a single use only restrictive license on their patented containers, said single use license being predicated upon their patent and thereafter instituting litigation to try to enforce that single use non refill license.

6. Writing letters to OEMs and suggesting that OEMs tell their customers that Trident/ITW will prevail in litigation when they know they cannot possibly prevail because they lost the Markman interpretation they needed. These letters were written in order to keep customers from buying from Independent.

7. Conspiring with each other, when they were separate entities; to keep others, such as Marsh, from selling ink not purchased from Trident.

8. Threatening to void warranties of those who use ink other than Trident/ITW ink.

Taken as a whole, all of Trident/ITW's plan or scheme and pattern of conduct is an illegal restraint of trade. In addition, Trident/ITW's agreements with their OEMs whereby those OEMs agree to only purchase Trident/ITW ink is a conspiracy with those OEMs to establish a monopoly in violation of the antitrust laws. Further evidence of this conspiracy is the fact that ITW, subsequent to the institution of this litigation, acquired a number of Trident's former OEMs, including ITI and Foxjet, two of its larger customers. ITW already owned Loveshaw, another Trident customer. As a result, ITW has now further solidified its monopoly in this technology by bringing under its corporate umbrella Trident, Trident's patents and some of Trident's largest customers. This is of particular significance in light of the fact that there are a limited number of companies making industrial piezo-

electric ink jet printers. This is a small market and Trident/ITW are engaged in a comprehensive overall scheme and practice to consolidate ITW's power and to continue and further enhance its dominance in this market niche.

It has long been the law that one may not use a patent on one product to restrict the sale of a non-patented product intended for use with the patented product. This conduct has long been held to be a per se violation of the antitrust laws. It has never been held that market power must be shown in such a fact situation. Market power in the patented product as it relates to the non-patented product is presumed. This is true regardless of what power the patented products may have in the market in which those products compete. As far as the tied product (the ink) is concerned, it has only one market and that is the market for the patented system (Trident/ITW's patented reservoir and container).

It is undisputed that Trident/ITW have a patent on their container and reservoir; that the ink which Independent is attempting to sell is for replacement of the Trident/ITW ink once it has been consumed, and that Trident/ITW are attempting to enforce their restrictive license by alleging patent infringement against Independent. Trident/ITW are clearly in violation of the antitrust laws and this issue should be easily resolved.

Independent understands from Trident/ITW's previously filed opposition to Independent's first motion for summary judgment that it is Trident/ITW's position that the law has changed and that market power must now be shown. Independent disputes that law and will discuss its position in some detail infra.

Even if Trident/ITW's position should be upheld and the Court should decide that market power is the necessary ingredient for the antitrust patent tying cases, that should not matter in terms of the outcome of this case. As Independent will demonstrate, Trident/ITW have always had market

power in the field of industrial piezoelectric ink jet printing systems. Trident/ITW's own documents refer to Trident's "dominance" in this market niche.

The contracts that Trident/ITW have entered into with their OEM customers are illegal tying contracts, even separate and apart from their patent license provisions. Trident/ITW's market power and dominance in the industrial piezoelectric ink jet market has enabled them to impose the contract restrictions on the purchase of their ink on their customers. Indisputable evidence of this is shown by the manner in which Trident/ITW was able to force their largest customer, Marsh Industries, to cease and desist from making and selling its own inks. They did this by threatening to enforce the contract and by threatening to withhold print heads. This is shown by Trident/ITW's documents and was also was attested to by Elaine Pullen, Trident's president.

Finally, Independent is requesting summary judgment as to Trident/ITW's claims of patent infringement based on the single use license. The license is illegal and therefore cannot be enforced.

II. TRIDENT/ITW'S SINGLE USE LICENSE IS A CLEAR VIOLATION OF THE ANTITRUST LAWS.

Trident/ITW's single use license reads as follows:

> "Single Use License Under Trident Patent Rights Including U.S. Patent 5,343,226 Do Not Refill."

This is a matter of undisputed fact.

It has long been the law in this country, as clearly enunciated by the Supreme Court on numerous occasions, that it is a per se violation of the antitrust laws to use a patent on one product to restrict the sale of a non patented product for use with the patented product. *International Salt Company v. United States*, 322 U.S. 392 (1947), *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2 (1984), *United States Steel Corp. v. Fortner Enterprises*, 429 U.S. 610, 97 S.Ct.

861, 51 L.Ed.2d 80 (1977), *United States v. Lowe's, Inc.*, 371 U.S. 38 (1962), *White Motor Co. v. United States*, 372 U.S. 253, 83 S.Ct. 696, 9 L. Ed. 2d 738 (1963).

III. THE PATENT MISUSE REFORM ACT HAS NOT MODIFIED OR CHANGED THE ANTITRUST LAWS WITH REGARD TO PATENT TYING BEING A PER SE VIOLATION.

The Patent Misuse Reform Act, which is being relied upon by Trident/ITW in this case, was an amendment to the patent laws, not the antitrust laws. As was stated by Justice Brennan in his concurring opinion in *Jefferson Parish*, *supra*, p. 25:

> "As the opinion for the Court demonstrates, we have long held that tying arrangements are subject to evaluation for per se illegality under § 1 of the Sherman Act. Whatever merit the policy arguments against this long-standing construction of the Act might have, Congress, presumably aware of our decision, has never changed the rule by amending the Act. In such circumstances, our practice usually has been to stand by a settled statutory interpretation and leave the task of modifying the statute's reach to Congress. *See Monsanto Co. v. Spray-Rite Service Corp.*, 465 U.S. 752, 769, 79 L.Ed. 2d 775, 104 S.Ct. 1464 (1984) (Brennan, J., concurring). I see no reason to depart from that principle in this case and therefore join the opinion and judgment of the Court." (Emphasis added.)[2]

The Patent Misuse Reform Act involves a completely different problem than that involved in the antitrust laws. In patent law, if a person is improperly using a patent, that per-

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[2] That case did not involve the Patent Misuse Reform Act, but the principle is equally applicable to the case at bar.

son may not enforce the patent against any party, even if the patent misuse is not directed against the party allegedly infringing the patent. In other words, a willful infringer may be able to obtain a free pass because of misconduct of the patentee directed against a third party. This often had unintended and unfair consequences. One of those abuses involves situations wherein a patentee was tying the sale of non-patented products to the sale of the patented product, in clear violation of the antitrust laws. This gave rise to situations wherein a patentee, who is engaging in improper activity with regard to one party was estopped from asserting its patents against a third party who was not selling a product for use in conjunction with the patented product, but was actually selling the patented product. Congress determined that this was an undesirable situation and therefore put restrictions on the ability of infringers who assert that particular defense. It required, as a prerequisite to asserting that particular defense of patent misuse, that the accused infringer be able to demonstrate that the patented product had market power. In making this determination, however, Congress clearly did not intend to (because it did not) create a defense to violating the antitrust laws. In other words, simply because an accused infringing third party was not able to assert tying as a defense to patent infringement, minus market power in the patented product, this did not mean that the party against whom the patent tying arrangement was directed would be without recourse. If Congress had so intended, Congress could, would and should have done so.

The fact of the matter is that no court anywhere has ever held that the Patent Misuse Reform Act is a defense to an allegation of violating the antitrust laws because of patent tying.

This issue was addressed subsequent to the passing of the Patent Misuse Reform Act in *Mallinckrodt v. Medipart*, 976 F.2d 700 (Fed. Cir. 1992) wherein the Court stated on page 78 of its opinion:

"However, this is not a price fixing or tying case, and the per se antitrust and misuse found in the Bauer trilogy and Motion Picture Patents are not here present. ..." (Emphasis added.)

IV. IN ANY EVENT, TRIDENT/ITW CLEARLY HAS HAD MARKET POWER AT ALL RELEVANT TIMES.

First of all, market power is presumed. As stated by the Court in *Jefferson Parish*, supra, on page 15:

"For example, if the government has granted the seller a patent or similar monopoly over a product, it is fair to *presume* that the inability to buy the product elsewhere gives the seller market power. ... *United States v. Lowes, Inc.*, 371 U.S. 38; 9 L.Ed.2d.11; 83 S.Ct. 97. Any effort to enlarge the scope of the patent monopoly by using the market power it confers to restrain competition in the markets for a second product will undermine competition on the merits in that second market." (Emphasis added.)

In *U.S. v. Lowe's*, supra, the Supreme Court stated on pages 18 and 19:

"The requisite economic power is presumed when the tying product is patented or copyrighted. ...

These cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products. The patentee is protected as to his invention, but may not use his patent rights to exact tribute for other articles." (Emphasis added.)

In addition, Trident/ITW have actual market power. Trident pioneered, developed, patented and created a market for industrial piezoelectric ink jet printers which can be used in lieu of printed labels which are more expensive, clumsy, etc.

Trident/ITW have enjoyed a "dominant" power in this market, including upwards of 90% of the market share, during the time that their customers were required to enter into tying agreements whereby they would only use Trident products, including Trident inks in conjunction with that technology.

Elaine Pullen testified in her August 22 deposition as follows: (P. 18, l. 25 - p. 19, l. 9.)

> Q. All right. Let's go to paragraph 15 again. It says "The option to purchase alternative inks by Marsh and other OEMs to reduce their cost of consumables is severely restricted by Trident." Do you know whether or not that statement is true?
>
> A. I believe the statement is untrue because the OEMs have all signed an agreement to purchase their ink from Trident. They would be in breach of that agreement if they were — after having signed it to purchase their ink from somebody else. (Emphasis added.)

See also the Customer Information Bulletin sent to Trident/ITW's customers (Exhibit 2).

> "... Please note, in particular, that under no circumstances does anyone other than Trident have any license or rights to supply you with ink for Trident products. ..." (Emphasis in original.)

The contracts with the OEMs are perpetual (Elaine Pullen deposition, p. 150, 11. 20 - 22.). A copy of Trident's contract with Markpoint, Printer AB, which is representative of all the contracts entered into between Trident and its customers is attached hereto (Exhibit 3).

Elaine Pullen further testified in her deposition on p. 267, 11. 1 - 9 as follows:

Q. Okay. Do you have any idea what percentage of piezo ink jet engines were provided by Marsh at that time — I'm sorry — by Trident at that time?

A. Well, what's that time? This is —

Q. 1997.

A. Well, the report is written in '97. I'm not sure it would be on '97 data, so it goes back to '96 where we would have had over 90 percent of them for industrial printing I'd expect. (Emphasis added.)

In *United States v. Grinnell Corp.*, 384 U.S. 563 (1966), the United States Supreme Court stated on page 571:

"*In American Tobacco Co. v. United States*, 328 U.S. 781, 797, we said that 'over two-thirds of the entire domestic field of cigarettes, and... over 80% of the field of comparable cigarettes' constituted a 'substantial monopoly.' *In United States v. Aluminum Co. of America*, 148 F.2d 416, 429, 90% of the market constituted monopoly power. In the present case, 87% of the accredited central stat n service business leaves no doubt that the congeries of these defendants have monopoly power—which, as our discussion of the record indicates, they did not hesitate to wield..."

In Universal Analytics, Inc. v. MacNeal-Schwendler Corporation, 914 F.2d 1256 (9th Cir. 1990) the Ninth Circuit Court of Appeals stated on page 1257:

"At all times relevant to this suit, MSC had approximately 90 percent of the market, and UAI, which entered the market in the early 1980s, about five percent. Thus, we assume the first element of a section 2 claim was met."

In her deposition testimony of August 22, Elaine Pullen acknowledged that all but one of the significant OEM con-

tracts were entered into before she became president of the company (which was in the 1995 time period when Trident clearly had over 90% of the market). Elaine Pullen deposition, p. 151, l. 22 - p. 152, l. 19.

Included in Trident/ITW internal documents are the following:

Exhibit 4: Monthly Management Report for January 1997, Technical Barriers to Entry

> **"Barriers to entry of a competitor into Trident's markets are considerable.** Our technology required an initial investment of approximately $20m and at least $10m of on-going R&D and process development. This work resulted in an extensive portfolio of patents and confidential know-how. All of the impulse ink jet printheads on the market today required similar or higher investments. ...
>
> The impact that Trident can dictate on individual customers and/or this market is extremely massive. We are in the driver's seat, at this time." (Emphasis added.)

Exhibit 5: Investment Highlights

> "Dominant market position focused on industrial applications." (Emphasis added.)

Exhibit 6: Trident International, Inc. 1998 Marketing Plan

> "Trident dominates the impulse ink jet printhead market." (Emphasis added.)

Exhibit 7: Trident, Inc. Presentation to the Board of Directors.

"*Trident is the leader in piezo-electric ink jet.* Trident is the technology leader in an increasingly important segment of the overall ink jet market, with a dominant market share and a broad patent portfolio." (Emphasis added.)

Exhibit 8: Trident International Company Report Impulse Ink Jet Market Growing 40% - Trident Dominates.

"Trident is the technology and market leader in the emerging impulse ink jet market, particularly in industrial applications such as carton coding." (Emphasis added.)

Exhibit 9: Trident International, Inc./NASDAQ (TRDT):

"Based on conversations with Trident management and with a sampling of its OEM customers, ... Only Trident supplies the (patented) ink jet sub systems that provide the high resolution for readability of barcodes required by Walmart and other retailers. As two VARs put it, 'Trident is the only game in town for both ink jets and ink." (Emphasis added.)

Exhibit 10: Marketing Plan 199293 Trident, Inc.

> "Fortunately at this juncture, no viable technology that offers the same capabilities as Trident's Imaging Subsystem are available for industrial applications." (Emphasis added.)

ITW has made it clear to at least one of Trident/ITW's OEMs (Marsh — Trident's largest customer) that Trident/ITW does not view violations of its contract lightly and that it has the resources and the will to enforce its contracts. They also threatened to withhold printheads. Attached hereto as Exhibit 11 is an internal memorandum of Trident which, taken in conjunction with the deposition testimony of Elaine Pullen, p. 227, l. 8 - p. 228, l. 8; p. 229, l. 6 - p. 230, l. 6, demonstrate ITW's attitude, policy and abilities in this regard. In that memorandum it states:

> "Date: January 22, 1999, From: Elaine Pullen, Subject: Visit Report: Videojet Systems Intl., January 21, 1999, ... Valerie again stated that ITW has considerable legal resources as compared to Trident and that they have started a thorough legal review and will take appropriate action to stop Graphic Controls. ... Valerie also stated again that ITW does not allow contracts to be breached

and although our desire is to avoid a legal action, an injunction and damages are the likely outcome. ITW would also, if pressed, discontinue the supply of printheads to Videojet and Marsh." (Emphasis added.)

It was as a direct result of these threats that Marsh decided to stop manufacturing its own ink, but rather to allow Trident to make its ink for it and to sell it to Marsh. (Exhibit 12 attached hereto.)

" ... Purpose: ... Discussion: ... 2. Ink

Trident agreed to supply Videojet/Marsh with both the AD1 ink and Trident ink." (Emphasis in original.)

The fact that these contracts were forced upon their customers was demonstrated by the manner in which Trident/ITW was able to back down Marsh, their largest customer when Marsh attempted to sell its own ink.[3]

V. TRIDENT/ITW'S OEM CONTRACTS CONSTITUTE ILLEGAL PATENT TYING.

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[3] It should be noted that these threats were made by ITW in the presence of Elaine Pullen, who was then president of Trident, before the acquisition of Trident by ITW, when Trident and ITW were separate publicly traded entities. Elaine Pullen deposition, p. 227, l. 18-25:

Q. The next sentence says "Valerie again stated that ITW has considerable legal resources as compared to Trident." What was her purpose in saying that, if you know?

A. Well, the timing of this meeting was actually, I think, just prior to the acquisition by ITW and I think it was merely to remind Marsh that ITW had every intention of standing behind its rights.

ITW then went on to acquire ITI and FoxJet. Clearly ITW has an overall plan to monopolize this industry and it conspired with Trident to do so.

The OEM agreements specifically state:

"LICENSE GRANT/APPLICATIONS/FIELD OF USE (LICENSED PRODUCTS) To manufacture, use and sell equipment employing and including ink jet printing devices supplied by TRIDENT when used in combination with ink and ink supply systems supplied by TRIDENT and under now existing Trident patents and related TRIDENT Technical Information and copyrights and mask work registrations (if any) (Licensed Products) in the following application(s) and field(s) of use: ... (Emphasis added.)

In paragraph 3 of the Standard Terms and Conditions it states:

"The license and rights granted to BUYER hereunder to make, use and sell LICENSED PRODUCTS shall also extend to any customer of BUYER purchasing or otherwise acquiring the LICENSED PRODUCT from BUYER . . ."

For all of the same reasons set forth regarding the single use license, this is an illegal patent tying contract.

VI. TRIDENT/ITW's OEM CONTRACTS ARE PER SE VIOLATIONS OF THE ANTITRUST LAWS IN THAT THEY CONSTITUTE TYING BY A PARTY WITH MARKET POWER.

As shown by the evidence presented above, Trident/ITW clearly had overwhelming market power when the OEM contracts were entered into between Trident and the OEMs. Market power is determined by a variety of factors, including market share and the ability to affect markets. *Carter v. Veriflex, Inc.*, 101 F.Supp. 2d 1261, 1267 (C.D. Ca. 2000). Any party having market power in one product who uses that power to tie sales of another product is guilty of a per se violation of the antitrust laws. *Datagate, Inc. v. Hewlett-Packard Co.*, 60 F. 3d 1421, 1424 (9th Cir. 1995); *The Mozart Company, v. Mercedes-Benz of North America*, 833 F.2d 1342, 1345 (9th Cir. 1987). Here Trident has, through its

contracts, tied the sale of consumables (ink) to sales of its patented ink jet systems. This is a per se violation of the antitrust laws.

VII. THE RELEVANT MARKET IS NOT ALL THE TECHNOLOGY WITH WHICH TRIDENT/ITW'S PATENTED TECHNOLOGY COMPETES.

Based on Trident/ITW's previous papers, Independent anticipates that Trident/ITW will assert that the relevant market is all printing systems, including, label printing. This is not the relevant market. The issue here is whether only Trident/ITW will be allowed to sell non-patented ink for use in their patented system. Independent is not being prevented from selling ink for other systems by Trident/ITW's conduct nor are end users and OEMs being prevented from buying ink from others for non Trident/ITW systems. As Trident/ITW made clear in their Markman hearing papers, the inks for use in their system must be specially formulated. Independent has developed a formula that works in Trident/ITW systems and Trident/ITW do not want that ink purchased by anyone.

VIII. TRIDENT/ITW'S CONDUCT HAS CAUSED ANTITRUST DAMAGE.

While it is not necessary for a per se violation of the antitrust laws, it is nonetheless true that Trident/ITW has clearly caused damage to competition in that their prices for ink are substantially higher than those charged by Independent Ink and others. Attached hereto as Exhibit 13 is a document first produced by Trident/ITW on September 19, 2000. This document clearly shows the disparity between the prices charged by Trident/ITW and those charged by others, including Independent Ink.

IX. TRIDENT/ITW CANNOT MAINTAIN AN ACTION AGAINST INDEPENDENT INK BASED UPON THE SINGLE USE - DO NOT REFILL LICENSE.

Trident/ITW's remaining patent infringement claim is based entirely upon, its illegal tying single use license which it has placed upon its patented containers.

Mallinckrodt v. Medipart, supra, made it clear that a single use license may not be enforced if that license is an illegal tying license which constitutes a per se violation of the antitrust laws.

On page 708 of its opinion, the Court stated:

> "However, this is not a price fixing or tying cage, and the per se antitrust and misuse found in the Bauer trilogy and Motion Picture Patents are not here present.

The appropriate criteria is whether *Mallinckrodt's* restriction is reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason. . . . Should the restriction be found to be reasonably within the patent grant, i.e., that it relates to subject matter within the scope of the patent claims, that ends the inquiry. However, should such inquiry lead to the conclusion that there are anticompetitive effects extending beyond the patentee's statutory right to exclude, those effects do not automatically impeach the restriction. Anticompetitive effects that are not per se violations of law are reviewed in accordance with the rule of reason." (Emphasis added.)

X. CONCLUSION.

Trident/ITW have engaged in a blatant, illegal antitrust tying; conspiracy; product withholding; litigation filing; customer threatening, false publications scheme to preserve their ink revenue stream. Virtually any one of the acts in which Trident/ITW have engaged to preserve their monopoly would subject them to the appropriate penalties under the antitrust laws. The combination of all of these elements constitutes a widespread thorough and completely reprehensible attempt to force any and all competition out of the market which ITW

and its division, Trident, dominate. Independent Ink and any other ink manufacturer have the right to sell ink which can be used in the Trident system. Likewise, Trident/ITW's customers (their OEMs) and the customers of those customers (end users) have every right to purchase ink from sources other than Trident/ITW. Trident/ITW's conduct is motivated by nothing more than greed and shows a blatant disregard and disrespect for the laws of this country as well as basic principles of fairness.

While these issues may seem academic when presented on paper, the reality is that a small company, like Independent Ink, has an extremely difficult time surviving in this market. By throwing every road block conceivable in its path, Trident/ITW have basically hoped to drive Independent Ink (and others) out of this market entirely. The mere fact that they have instituted completely specious litigation alleging infringement of their ink patent is in and of itself evidence of Trident/ITW's vicious attitude towards their competitors. This is further exemplified by the manner in which Trident/ITW threatened Marsh Industries, their largest customer. If they didn't have market power they would never dare to threaten their largest customer in this manner. They threatened litigation as well as retribution in the form of withholding print heads.

It is respectfully submitted that summary judgment should be entered against Trident/ITW and in favor of Independent Ink on both patent tying cases as well as tying through Trident/ITW's contracts with their OEMs.

Because the patent tying arrangement is a per se illegal restraint of trade as described in Mallinckrodt, supra, it is unenforceable and Trident/ITW may not maintain an action for patent infringement against Independent based upon that "single use do not refill" license. Accordingly, summary judgment should be issued in favor of Independent on this issue as well.

Dated: Oct. 20, 2000

Respectfully submitted,

STRADLING, YOCCA,
CARLSON & PAUTH

/s/ EDWARD F. O'CONNOR
Edward F. O'Connor
Attorneys for Plaintiff

Exhibit 1

CONFIDENTIAL

Protection of Trident's Consumable Business

Trident has taken various actions and precautions to assure a continued consumables business for Trident. These actions and precautions are outlined below:

A. Ink Patent Portfolio

Trident has obtained and maintained an extensive ink patent portfolio. To the extent possible, Trident has sought and obtained patent coverage with the broadest possible claims for the various inks that Trident's customer use. The claims of these patents are not directed to narrow formulations but rather, in most cases, broad recitations of characteristics and compositions necessary to provide compatibility with Trident printheads while achieving good jetting and marking performance.

B. Ink Supply Patent Coverage

Trident has obtained U.S. patent coverage on the Trident ink supply system in the form of U.S. Patent 5,343,126 ("the '226 patent') and an application still pending in the U.S. Patent & Trademark Office which will provide additional claim coverage. Based on this patent coverage, Trident marks its ink supply containers which include a bottle and valued cap with a notice of a single use license under the '226 patent of the type sanctioned by the Federal Circuit Count of Appeals in the Mallinckrodt case which forms Attachment A. By using such a license, Trident has a cause of action for patent infringement by a customer or a third party who refills the bottle with non-Trident ink. The patent also gives Trident a cause of action against a third party or customer who makes or sells another bottle with a valued cap covered by the claims of the patent and fills that bottle with non-Trident ink.

C. Sales and License Agreement Requires Use of Trident Ink

A standard Trident Sales and License Agreement is signed by all customers. Under the terms of this agreement, Trident's customers receive a grant of a license to use Trident printheads and other Trident supplied apparatus which is covered by the Trident patents. The license grant is only valid if Trident supplied ink and other consumables are used in or with the patented Trident apparatus. If a Trident customer or a customer of a Trident customer uses non-Trident ink or other consumables, Trident has a case of action for patent infringement against such a customer or a customer of a customer since that activity is unlicensed and filing such a bottle with non-Trident ink infringes. Trident also has a cause of action against anyone selling ink to Trident's director indirect customers for inducing a breach of Trident's Sales and License Agreement which requires the purchase of ink and other consumables from Trident.

Exhibit 2

Trident, Inc.
1114 Federal Road
Brookfield, CT 06804-1140
(203) 740-9333 Fax: (203) 775-9668

December 27, 1994

CUSTOMER INFORMATION BULLETIN
#101

TRIDENT AGREEMENT WITH MICROPORE

The purpose of this bulletin is to explain and clarify the current relationship between Trident, Inc. and Micropore, Inc. for the supply of inks previously purchased from Porelon.

Micropore, Inc. purchased Porelon, Inc. from Johnson Worldwide Associates in June 1994. Prior to the divestiture of Porelon by Johnson Worldwide Associates. Porelon supplied Trident with several of our most popular inks in bulk quantity. Trident repackaged these inks for sale to our customers. The ink formulations were developed by Trident, and Porelon acted as a vendor in this arrangement.

The current arrangement is as follows:

- Trident will purchase from Micropore those inks that were previously purchased in bulk from Porelon and:
- Micropore has the right of first refusal to supply other Trident inks with a certain minimum anticipated volume, at a competitive price.
- Micropore cannot se [sic] make ink, directly or indirectly, for Trident's customers anywhere in the world.
- Micropore has no rights to Trident inks other than to manufacture bulk ink under the conditions defined above. Trident packages and labels these inks into bottles and cartridges at our Brookfield, Connecticut facility.

We hope that this provides you with a clear understanding. Please note, in particular, that under no circumstances does *anyone* other than Trident have any license or rights to supply you with ink for Trident products.

We also request anyone finding ink being sold as "Trident compatible" by companies other than Trident and its customers, to provide details and samples to Trident so that we can evaluate the product for potential patent infringement and incompatibility.

Exhibit 3

Trident, Inc.
1114 Federal Road
Brookfield, CT 06384
(203) 740-9333 Fax (203) 775-9668

TRIDENT, INC.

SALES AND LICENSE AGREEMENT

WITH

MARKPOINT, PRINTER AB

Agreement N. 141

EVERY TERM OF THIS AGREEMENT IS IMPORTANT.
READ EACH OF THEM CAREFULLY.

Definitions:

"TRIDENT" shall mean TRIDENT, Inc.
"AGREEMENT" shall mean this Sales And License Agreement.
"BUYER" shall mean the purchaser identified below.
Other words with special meaning in this Agreement, generally capitalized words, shall have the meaning detailed in the OTHER DEFINITIONS section of pages 9, 10 and 11 of this Agreement.

By signing this document, you agree to be bound by the STANDARD TERMS AND CONDITIONS OF SALE attached, which are an integral part of this form Agreement. All sales of TRIDENT Apparatus for incorporation in certain equipment assembled, used or sold by a Buyer for certain applications include royalty-free, nonexclusive, nontransferable rights under certain proprietary rights of TRIDENT. The specific equipment and applications ("Licensed Products") for Buyer are as specified in the 'LICENSE GRANT/APPLICATIONS/FIELD OF USE."

LICENSE GRANT/APPLICATIONS/FIELD OF SUE (LICENSED PRODUCTS)

To manufacture, use and sell equipment employing and including ink jet printing devices supplied by TRIDENT when used in combination with ink and ink supply systems supplied by TRIDENT and under now existing Trident patents and related TRIDENT Technical Informaiton and copyrights and mask work registrations (if any) (Licensed Products) in the following application(s) and field(s) of use:

Trident Product Type:	Ultrajec™ Imaging subsystems – including all commercially available configurations and associated electronics.
Trident Ink Type:	All commercially available ink.
Application/Field of Use:	The on-line/off-line coding and marking of packages and products, postal marking (mailing and addressing).
Geographical Limitations:	Those groups of countries which make up the EEC and EFTA trading blocks as of 1 May 1993. The United States of America, Canada.

NOTE: NO LICENSE UNDER ANY FUTURE ISSUED TRIDENT PATENTS OR RELATED TECHNICAL INFORMATION OR FUTURE COPYRIGHTS OR MASK WORK REGISTRATION IS PROVIDED BY THIS AGREEMENT EXCEPT TO THE EXTENT NECESSARY TO MAKE.

USE AND SELL LICENSE PRODUCTS INCORPORATING THE TRIDENT APPARATUS SUPPLIED BY TRIDENT PURSUANT TO THE TERMS HEREOF.

This agreement, including the Standard Terms and Conditions of Sale on pages 3 through 11 of this Agreement Form, constitute the entire Agreement between the Parties hereto and supersedes all proposals, oral or written, and all previous negotiations and other communications between the Parties. The Standard Terms and Conditions of Sale of this Agreement cannot be modified or waived except in writing signed by the Parties hereto and waiver by TRIDENT or Buyer of any provision hereof in any one instance shall not constitute a waiver as to any other issuance. If a provision of this agreement is invalidated for any reason, this Agreement remains binding except for such invalid provision. This Agreement shall be construed in accordance with and governed by the laws of the State of Connecticut. This agreement may be signed in several counterparts each of which shall be deemed an original.

IN WITNESS WHEREOF, the Parties hereto with the intent to be legally bound, have caused duly authorized personnel of their respective corporaneous to execute this Agreement effective the 27th [sic] of August, 1993

_____ TRIDENT, INC.

Company

By: _____ By:_____

Title: _____ Title: _____

ACCEPTANCE OF THIS ORDER IS CONDITIONED ON YOUR ASSENT TO THIS ENTIRE AGREEMENT

STANDARD TERMS AND CONDITIONS OF SALES

1. OFFER: GOVERNING PROVISIONS
The writing constutes an offer by TRIDENT to sell the products and/or services described on page one in accordance with these terms and conditions, and is expressly conditioned upon assent to these terms and conditions.

No additional or different terms or conditions will be binding upon TRIDENT unless specifically agreed to in writing; failure of TRIDENT to object to provisions contained in any purchase order or other communication from BUYER shall not be construed as a waiver of those terms and conditions nor an acceptance of any such provisions. This Agreement and these terms and conditions shall constitute the entire agreement between TRIDENT and BUYER, and shall be governed by the laws of the State of Connecticut.

2.a. BUYER'S PRE-ORDER INSPECTION AND ACCEPTANCE
BUYER acknowledges that prior to its order it inspected the TRIDENT Aparatus inlcuding documentsion related thereto and had an adequate opportunity to test the TRIDENT Apparatus for BUYER's intended use. BUYER acknowledges that it accepts the TRIDENT Apparatus for BUYER'S INTENDED USE.

2.b. JETWRITE™ AND HIDEF™ WARRANTY AND REPAIRS
TRIDENT Apparatus, including TRIDENT consumable supplies, for a period of one (1) year from the date of shipment thereof by TRIDENT, under normal use and service, and when employed in accordance with TRIDENT Technical information, will be free from defects to materials and workmanship. TRIDENT will, without charge, within thirty (30) work-

ing days of receipt of the defective TRIDENT Apparatus, repair or replace, at its sole option the TRIDENT Apparatus or parts (normal wear and tear excluded) which are determined to be defective within the warranty period and which are returned to TRIDENT freight *prepaid*, F.O.B. factory of origin (or other TRIDENT repair facility as may be designated by TRIDENT), provided the TRIDENT Apparatus or part thereof has not been damaged, subjected to excessive duty cycle, misuse or abnormal operations, or altered or improperly installed, repaired or maintained by BUYER or others in a manner which TRIDENT reasonably determines to have adversely affected performance or reliability. In the event that TRIDENT Apparatus returned under warranty is in good working order or evidence of ink not supplied by TRIDENT, is found in the TRIDENT Apparatus, a sixty dollar ($60) evaluation fee will be charged to BUYER by TRIDENT.

2.c. FASTDRI™ AND HIDEF™ WARRANTY AND REPAIRS

TRIDENT Apparatus, including TRIDENT consumable supplies for a period of 180 days from the date of shipment thereof by TRIDENT, under normal use and service, and when employed in accordance with TRIDENT Technical information, will be free from defects to materials and workmanship. TRIDENT, will, without charge, within thirty (30) working days of receipt of the defective TRIDENT Apparatus, repair or replace, at its sole option the TRIDENT Apparatus or parts (normal wear and tear excluded) which are determined to be defective within the warranty period and which are returned to TRIDENT, freight prepaid, F.O.B. factory of origin (or other TRIDENT repair facility as may be designated by TRIDENT), provided the TRIDENT Apparatus or part thereof has not been damaged, subjected to excessive duty cycle,

misuse or abnormal operation, or altered or improperly repaired or maintained by BUYER or others in a manner which TRIDENT reasonably determines to have adversely affected performance or realiability. In the event that TRIDENT Apparatus returned under warranty is in good working order or evidence of ink not supplied by TRIDENT found in the TRIDENT Apparatus, a sixty dollar ($60) evaluation fee will be charged to BUYER by TRIDENT.

THE ABOVE WARRANTY DOES NOT COVER TRIDENT INK JET PRINTING DEVICES REPAIRED, REFURBISHED OR OTHERWISE DIASSEMBELED BY PERSONS NOT CERTIFIED BY TRIDENT IN A MANNER SO AS TO BREACH THE FLUID PATH OR DAMAGE TO TRIDENT INK JET PRINTING DEVICES CAUSED BY THE USE OF INK OR SPARE PARTS NOT SUPPLIED BY TRIDENT OR DAMAGE TO TRIDENT INK JET PRINTING DEVICES CAUSED BY FAILURE TO USE TRIDENT AUTHORIZED PROCEDURES AND PROCESSES.

Warranty claims hereunder must be made promptly in writing, stating the nature and date of the failure, the TRIDENT Apparatus serial number, if applicable, and mustbe received by TRIDENT within the applicable warranty period. Notification by telex, facsimile or TWX is an acceptable form of notification for those failures that occur during the latter stages of the warranty period.

The above warranty extends solely to BUYER and all warranty claims must be made by BUYER and not by customer or other successors of BUYER. Repair or replacement of parts or TRIDENT Apparatus shall neither extend nor decrease the original warranty period.

2.d. LIMITATION OF TRIDENT'S LIABLITY: DISCLAIMERS
TRIDENT'S liability is limited to and BUYER'S sole and exclusive remedy for breach of warranty shall be

the repair or replacement of the defective TRIDENT Apparatus or part and does not include any lable related to the subsequent installation thereof. TRIDENT Apparatus or parts repaired or replaced by TRIDENT will be shipped to BUYER F.O.B. destination, freight prepaid within the continental United States (F.O.B. TRIDENT's factory, freight collect, outside the continental United States).

DISCLAIMER OF IMPLIED WARRANTIES

THE EXPRESS WARRANTIES MADE IN THIS AGREEMENT ARE IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION, WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE OF MERCHANTABILITY.

2.e. EXCLUSION OF CONSEQUENTIAL DAMAGES AND LIMITATION OF OTHER LIABILITY; BUYER'S WARRANTY

TRIDENT's liability with respect to breaches of warranty shall be limited as provided in paragraph 2 hereof. With respect to other breaches of the Agreement, TRIDENT's liability shall in no event exceed the contract price. TRIDENT SHALL NOT BE SUBJECT TO AND DISCLAIMS: (1) ANY OTHER OBLIGATIONS OR LIABILITIES ARISING OUT OF BREACH OF CONTRACT OR OF WARRANTY (2) ANY OBLIGATIONS WHATSOEVER ARISING FROM TORT CLAIMS INCLUDING NEGLIGENCE AND STRICT LIABILITY OR ARISING UNDER OTHER THEORIES OF LAW WITH RESPECT TO GOODS SOLD OR SERVICES RENEDERED BY TRIDENT, OR ANY UNDERTAKINGS, ACTS OR OMISSIONS RELATING THERETO, AND (3) ALL CONSEQUENTIAL INCIDENTAL AND CONTINGENT DAMAGE WHATSOEVER. Without limiting the generality of the foregoing, TRIDENT specifically

disclaims any liability for penalities (including administrative penalities) special or punitive damages. damages for lost profits or revenues, loss of use of goods or any associated equipment, cost of capital. facilities or services, downtime, shut-down or low-down costs, or for any other types of economic loss. All th elimitations and disclaimers contained in this paragraph and in the rest of this Agreement sha!l apply to claims of BUYER'S customers or any third party as well as to claims of BUYER. Unless this Agreement is amended pursuant to paragraph 8, BUYER understands that he is foregoing the possibility of, among other things. recover from TRIDENT of tort liability. BUYER shall indemnify TRIDENT against any and all losses. liabilities. damages and expenses (including, without limitation attorneys' fees and other costs of defending any action) which TRIDENT may incur as a result of any claim by BUYER or others arising out of or in connection with the goods or services sold hereunder and based on goods or service defects not proven to have been caused solely by TRIDENT's negligence. BUYER understands and agrees that the sole and exclusive remedies for breach of any and all warranties and the sole remedies for TRIDENT's liability of any kind including liability for negligence with respect to the TRIDENT Apparatus or related spare parts or services covered by this Agreement and all other performance by TRIDENT udner or pursuant to this Agreement shall be limited to the remedy of repair or replacement as provided herein.

3. LICENSES AND ASSIGNMENT

The license identified in the LICENSE GRANT/APPLICATIONS/FIELD OF USE on page 1 to BUYER is royalty-free, nonexclusive and non transferable. The license and rights granted to

BUYER hereunder to make, use and sell Licensed Products shall also extend to any customer of BUYER purchasing or otherwise acquiring the Licensed Product from BUYER but only with respect to the particular Licensed Product so purchased or acquired from BUYER. BUYER hereby afrees to assign to TRIDENT all of its interest in any proprietary rights including inventories and resulting patents and patent applications and confidential technical information comprising improvements in or technology relating to the TRIDENT Apparatus.

No rights or licenses, expressed or implied, are granted hereunder except those expressly acknowledges and agrees that no right or license is granted hereunder in connection with rotary printing or the use of the TRIDENT Apparatus in any rotary printing device or for any rotary printing application. As used herein, the term "rotary printing" shall mean a printing system wherein a sheet of paper is printed upon by means of a rotating print based which ahs a number of ink jets located about an axis, and wherein the surface of the paper which is to be printed upon is generally curved around the print head, and wherein the axis about which the paper is curved lies generally in the same direction as the axis about which the ink jets are located.

4.a. INTELLECTUAL PROPERTY INFRINGEMENT TRIDE [SIC] BASIC OBLIGATION – BUYER'S OBLIGATION TO PROVIDE NOTICE AND TO ASSIST.

TRIDENT agrees, as its own expense, to defend BUYER is any suit, claim or proceeding brought against BUYER alleging that TRIDENT Apparatus purchased by BUYER from TRIDENT infringes a patent, copyright, mark work registration or trade secret right or another PROVIDED, however, that BUYER (a) promptly after BUYER learns of any

such suit, claim or proceeding, notifies TRIDENT, in writing, of such suit, claim or proceeding, such that TRIDENT received written notice ten (10) days of BUYER's first learning of any such suit, claim or proceeding; (b) gives TRIDENT full information and assistance (at BUYER's expense) required for TRIDENT to defend such suit, claim or proceeding, and (c) allows TRIDENT at TRIDENT's expense, to direct the defense including selection of counsel and negilgence of any settlement.

BUYER AGREES THAT FAILURE TO GIVE THE NOTICE DESCRIBED HEREIN WITHIN THE TIME STATED OR TO GIVE THE DESCRIBED ASSISTANCE MEANS THAT TRIDENT WILL HAVE NO OBLIGATION TO DEFEND BUYER AGAINST ANY SUIT, CLAIM OR PROCEEDING. Further, TRIDENT agrees to pay any Judgment, rendered in such by final judgment of a court of last resort.

4.b. LIMITATION OF TRIDENT'S OBLIGATION

Notwithstanding anything in this Agreement, TRIDENT shll have no liability to indemnity BUYER in any suite, claim or proceeding brought against BUYER in which the alleged infringement is based upon the making, using or selling of any assembly of which the TRIDENT Apparatus is a part and does not, by itself directly infringe, or where the alleged infringement is based upon modification of the TRIDENT Appratus as originally supplied by TRIDENT, or where the alleged infringement is based upon the making, using or selling, in conjunction with TRIDENT Apparatus, of equipment or materials not provided by TRIDENT.

4.c. TRIDENT NEED NOT REPLACE ENJOINED TRIDENT APPARTUS

BUYER AGREES THAT TRIDENT HAS NO OBLIGATION TO PROVIDE NON-INFRINGING REPLACEMENT FOR ANY ENJOINED TRIDENT APPRATUS OR TO OBTAIN A LICENSE TO INSURE BUYER'S CONTINUED USE OF ANY ENJOINED TRIDENT APPARATUS.

4.d. BUYER'S RESPONSIBILITY

With respect to any other claim, suit or action for ingement of patents, copy rights, mask work protection certificate or trade secret rights brought a BUYER, which claim, suit or action results from BUYER's making, using, and selling the Licensed Product, BUYER shall at its own expense defend any such claims, suits or actions, and at its own expense pay any damages or other sums which may be assessed or may become payable under any final decree or judgment in any such claim, suit or action or under any settlement thereof.

4.e. BUYER'S RESPONSIBILITY TO TRIDENT

BUYER shall, at its own expense, defend TRIDENT in any claim, suit or proceeding brought against TRIDENT alleging that (i) the Licensed Product or changes, modifications or enhancements made by BUYER to TRIDENT Apparatus or to TRIDENT Technical Information, or (ii) any item excluded from TRIDENT's obligation to indemnify set forth in the first paragraph of this paragraph 4, infringes any patent or copyright or trade secret or mask work registration or other proprietary-right of any third party. BUYER shall pay any judgment against TRIDENT rendered by the final judgment of a court of last resort based upon any such allegation(s) in such suit or proceeding, provided that TRIDENT (i) promptly notifies BUYER in writing of any such claim and gives BUYER the opportunity to defend or settle any such claim at BUYER's expense and (ii) cooperates with

BUYER, at BUYER's expense, in defending or settling such a claim.

4.f. TRIDENT NOT RESPONSIBLE FOR CERTAIN KINDS OF DAMAGE

TRIDENT SHALL IN NO EVENT BE RESPONSIBLE OR LIABLE FOR CONSEQUENTIAL, SPECIAL, INDIRECT OR PUNITIVE DAMAGES. THE FOREGOING STATES THE ENTIRE LIABILITY OF TRIDENT AND BUYER WITH RESPECT TO INTELLECTUAL PROPERTY INFRINGEMENT.

5. EXCUSED PERFORMANCE

Neither party shall be responsible to the other for failure to perform any of the obligations (other than the obligations to pay money) imposed by this agreement, provided such failure shall be occasioned by fire, flood, explosion, lighting, windstorm, earthquake, subsidences, of soil, failure or destruction, in whole or in part, of machinery or equipment, discontinuity in the supply of power, governmental interference, civil commotion, riot, war, strikes, labor disturbance or by any cause beyond the reasonable control of the party in question.

6. CONFIDENTIALITY

BUYER agrees to maintain TRIDENT's Confidential Technical information (including but not limited to data, plans, specifications, designs and drawings) in confidence from the time of disclosure, and to use reasonable efforts to prevent the disclosure thereof to others including Affiliates except (a) in confidence on a need-to-know-basis, (b) only to individuals and entities which have agreed in Writing to maintain such Confidential Technical Information in confidence, and (c) only to the extent necessary for BUYER to make, sue and sell Licensed Products. With respect

to the above, TRIDENT agrees to supply BUYER with and allow the BUYER to use such technical information as is necessary to enable BUYER to produce BUYER's technical manuals for Licensed Product. However, so Confidential Technical Information of TRIDENT may be incorporated in the manuals.

7. TERMS OF PAYMENT

Invoices for TRIDENT Apparatus shall be rendered upon shipment. Paymen tof these and all other invoices shall bemade in fully thirty (30) days from date of invoice paid in U.S. dollars drawn on a U.S. bank and TRIDENT may, at its option, require that such payments be secured by letters of credit. Any payment not made on or before its due day will be subject to any annual interest charge of the lesser of (a) eighteen percent (18%), (b) one percent (1%) above the average of the daily prime rate of Citibank N.A. (New York), or (c) the maximum rate permitted by law.

8. PRICES

All prices quoted are subject to change, with ninety (90) days notice in writing. If there is a delay in completion of shipment of BUYER'S order, due to any change requested by BUYER or as a result of any delay on BUYER's part in furnishing information required for completion of the order, the price in effect at time of acceptance of order is subject to the charge.

9. SHIPPING, DELIVERY AND PACKAGING

All prices are F.O.B. TRIDENT's shipping dock. The mode of transportation shall be designated by BUYER and may be revised by written notices received by TRIDENT at least (10) working days prior to the scheduled delivery date. Purchase Orders without specific shipping instructions will be trans-

ported consistent with the nature of the equipment and the hazards of transportation of the material.

BUYER agrees that shipments shall be taken in accordance with the delivery schedule TRIDENT quotes to BUYER. The lead times specified and the delivery schedule quoted by TRIDENT are the best estimate possible, based on current and anticipated factory loads, of when TRIDENT Apparatus will be shipped. TRIDENT assumes no liability for loss, damage or consequential damage due to delays.

The prices specified include cost of commercial packaging adquate for shipment by air or land surface carriers. Special packaging required by BUYER for shipment by other modes shall be quoted by TRIDENT on request.

10. TAXES

TRIDENT'S prices for TRIDENT Apparatus are exclusive of any applicable sales, use or excise taxes or other charges levied by any governmental authority shall be separately itemized on TRIDENT's invoice and paid by BUYER unless BUYER furnished TRIDENT a properly completed exemption certificate or such other evidence presecribed by the appropriate taxing authority as proof of exemption from such taxes.

11. TITLE/RISK

ALL TRIDENT Apparatus shall be shipped F.O.B. TRIDENT'S shipping dock, freight collect. Title shall pass to BUYER at the F.O.B. point which will be TRIDENT's shipping dock. Not withstanding the foregoing, until title passes to BUYER, TRIDENT agrees to maintain TRIDENT Apparatus in good operating condition. BUYER assumes all risk of loss or damage while the equipment is in the BUYER's possession, including without limitation, risk of loss in

transit from TRIDENT's facilities. TRIDENT may request, and BUYER shall provide TRIDENT with evidence of appropriate insurance coverage.

12. EFFECTIVE DATE, TERMINATION AND RESCHEDULING/CANCELLATION

The "Effective Date" of this agreement shall be the date indicated on page 1. This Agreement may be terminated by either Party at any time if the other Party has substantially breached any material province contained in this Agreement and this breach has not been cured within thirty (30) days of receipt of written notice thereof.

BUYER may reschedule or cancel, in whole or party, any order issued hereunder and accepted by TRIDENT at any time prior to shipment provided that written notice is received by TRIDENT. In the event of such rescheduling or cancellation, BUYER agrees to pay an amount equal to the appropriate level noted in the table provided TRIDENT has no other acceptable option for the rescheduled or canceled TRIDENT Apparatus within a reasonable period of time. An order can be rescheduled no more than twice for a cumulative period not to exceed ninety (90) days.

Number of Days Prior to Scheduled Shipment that Notice is Received by TRIDENT	Reschedule Charts	Cancellation Charts
130 and over	0	0
120-179	0	10%
90-119	0	20%
5-89	5%	40%
0-4	5%	60%

13. POST-ORDER INSPECTION AND ACCEPTANCE

BUYER may conduct, at its own expense, incoming acceptance tests to confirm that each TRIDENT Apparatus passes an acceptance test for such Apparatus as set forth in TRIDENT's Technical Specifications

Acceptance testing of the TRIDENT Apparatus shall be completed prior to any modifications and/or reconfigurance of the same BUYER. It shall be BUYER's responsibility to assure that TRIDENT Apparatus is fit for BUYER's particular purpose and meets BUYER's particular needs and expectations and that charges made to TRIDENT Apparatus do not effect the Apparatus, performance to specification. The period for conducting such tests shall conclude thirty (30) days after receipt of each TRIDENT Apparatus, or after 100 equipment operational hours (the "Acceptance Period"), whichever occurs first, and all TRIDENT Apparatus shall be deemed accepted unless written notice of acceptance test failure is provided to TRIDENT within the Acceptance Period. Payment shall not be construed as acceptance.

14. OEM CERTIFICATION

BUYER represents that the TRIDENT Apparatus purchased hereunder will be utilized by BUYER only in the assembly, and as a constituent part, of a Licensed Product assembled by BUYER and supplied for sale or lease to third parties in the regular course of BUYER's business. This representation is made for the purpose of enabling TRIDENT to determine prices applicable to this Agreement.

15. RETURNS

TRIDENT Apparatus sold to BUYER under the terms of this Agreement should not be returned for any reason without authorization and packing instructions.

16. TRAINING AND TECHNICAL SUPPORT

Technical Support from TRIDENT to BUYER may be charged at the then prevailing hourly rate. All costs of the support personnel's travel and living expenses during the first two (2) days and thereafter shall be charged to BUYER. The current hourly rate

is $110.00 per hour and/or $750.00 per day and the increase, if any, to a prevailing rate at the time BUYER requests Technical Support will be consistent with TRIDENT's actual cost for providing such services and with industry practice.

17. ASSIGNMENT

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Either party may assign this Agreement without prior approval to any of its affiliates, but otherwise neither party may assign this Agreement or any obligation hereunder without the express written consent of the other party, which consent shall not be unreasonably withheld; any such assignment to which written consent is not given shall be void, except as assignment pursuant to consolidation, merger, or in connection with the transfer of all or substantially all of its assets or business relating to ink jet printing/document processing devices, in which event the consent of the other party shall not be required.

18. INCORPORATION

Any clause required to be included by TRIDENT or BUYER in a contract or agreement of this type by any applicable law or administrative regulation having the effect of law shall be deemed to be incorporated herein.

19. SUPPLY ASSURANCE

TRIDENT will supply and BUYER will purchase ink jet printing devices and all of the BUYER's requirements for ink, ink supply systems (and special integrated circuits of the type used by TRIDENT (or) ink jet printer driver boards and all parts therefore so as to assure availability and the proper operation of the ink jet devices for a period of five (5) years from the date

hereof. However, TRIDENT's obligations to supply is conditioned on at least 50 ink jet printing devices per year with no more than two orders to reach such a quantity, that 1) TRIDENT has not been declared bankrupt, insolvent nor engaged in proceedings under the bankruptcy laws, or 2) TRIDENT is unable to produce product because of a natural or acidental disaster, war or other national emergency.

20. OTHER DEFINITIONS;

"LICENSED PRODUCT" shall mean the equipment made, used or sold by BUYER described in the LICENSE GRANT/APPLICATIONS/FIELD OF USE on page one, for use in applications described therein, employing and including ink jet printing devices supplied by TRIDENT when used in combination with ink and ink supply systems supplied by TRIDENT.

"PATENT RIGHTS" shall mean all United States and foreign patents and patent applications owned or controlled by TRIDENT or assigned by BUYER to TRIDENT or licensed by TRIDENT with rights to grant sublicenses, and all divisions, continuations, continuances-in-part, and reissues or extensions thereof, now or hereafter obtained to the extent, and only to the extent, that they or the claims thereof cover one or more features of Licensed Product and excluding patents, patent applications and claims thereof that cover items purchased hereunder including supplies and consumables.

"TRIDENT'S TECHNICAL INFORMATION" shall mean design, use, operating and assembly information and know-how (written or otherwise) relating to Licensed Product, including changes, enhancements, and improvements relating thereto, whether copyrighted or not with TRIDENT possesses during the term of this Agreement, insofar as necessary or useful

to Buyer in manufacture, use, test, installation, maintenance, or operation of Licensed Products.

"*CONFIDENTIAL TECHNICAL INFORMATION*" shall mean any and all of TRIDENT's Technical Information disclosed, directly or indirectly, to BUYER by TRIDENT or its Affiliates, heretofore or hereafter under this Agreement, or assigned by BUYER to TRIDENT, which information shall be marked or indicated "Confidential," except.

(a) Techincal information which at the time of its disclosure was in the public domain;

(b) technical information which after disclosure became part of the public domain by publication or it is published or otherwise through no fault of BUYER or its Affiliates (but only after and only to the extent that it is published or otherwise becomes part of the public domain);

(c) technical information which BUYER can show was in its possession or its Affiliate's possession at the time of disclosure and was not acquired, directly or indirectly, from TRIDENT or its Affiliates or from a third party under an obligation of confidence; and

(d) technical information which BUYER can show was received by it or its Affiliate after the time of disclosure from a third party who did not require BUYER or its Affiliate as the case may be, to hold it in confidence and who did not acquire it, directly or indirectly, from the disclosing party or its Affiliates under an obligation of confidence.

"*AFFILIATE*" as used in this Agreement in connection with a designated company shall mean any company of which the designated company now or

hereafter owns or controls, dirctly or indirectly, fifty percent (50%) or more of the stock having the right to vote for directors thereof. For the purpose of this definition, the stock owned or controlled by a particular company shall be deemed to include all stock owned or controlled, directly or indirectly; by any other company of which the particular company owns or controls, directly or indirectly, fifty percent (50) or more of the stock having the right to vote for directors thereof.

"*TECHNICAL SUPPORT*" shall mean TRIDENT's providng limited technical assistance to BUYER for the purpsoe of educating BUYER in the use, operation and assembly of Licensed Product.

"*TRIDENT APPARATUS*" shall mean any one or a combination of the "ink jet printing devices," "ink", "Ink supply systems," "ink jet printer driver boards," parts therefore including "special integrated circuits" and TRIDENT Consumablel Supplies' manufactures and/or sold by TRIDENT as the date of this Agreement.

"*TRIDENT CONSUMABLE SUPPLIES*" shall mean one or a combination of the "ink," "containers for ink," "wipe cards," "cleaning materials," "maintenance materials" and other consumables manufactured and/or sold by TRIDENT as the date of this Agreement.

"*TRIDENT's TECHNICAL SPECIFICATIONS*" shall mean TRIDENT's Technical specifications for OEM Ink Jet Assembly in effect as of the date of this Agreement.

"*COMMERCIALLY AVAILABLE*" shall mean any products offered by TRIDENT that are available for general sale or all customers. These items are pub-

lished in Trident's standard OEM pricing catalog, including various inks, Imaging Sub-systems, electronics, spare parts and the like. This pricing catalog is revised from time to time to include new product offerings.

* * *

TRIDENT, INC.
1114 Federal Road
Brookfield. CT 06904
Tel.: (203) 740-9333
Fax: (203) 775-9660

July 9, 1993

Mr. Torkild Jenssen
MARKPOINT
S. Saterigatan 20
S-417 11 Goteborg
Sweden

Dear Mr. Jenssen:

Enclosed you will find two originals of our Sales and License Agreement ready for signature.

If these documents meet with Markpoint's approval, please have both signed and dated on page two and return them to the above address. I will then have Mr. Van Brimer sign on behalf of Trident and return one fully-executed copy to you.

If you have any questions, please feel free to contact me at my office (35-3162-70161).

Sincerely,

/s/ MICHAEL LAVERTY
Michael Laverty
European Sales Manager

ML/mb
Enc.

TRIDENT, INC.
1114 Federal Road
Brookfield, CT 06904
Tel.: (203) 740-9333
Fax: (203) 775-9660

April 5, 1993

Mr. Torkild Jenssen
MARKPOINT
S. Saterigatan 20
S-417 11 Goteborg
Sweden

Dear Mr. Jenssen:

Enclosed you will find a draft copy of our current Sales & License Agreement.

Please let me know if you have any questions.

Sincerely,

/S/ MICHAEL LAVERTY
Michael Laverty
European Sales Manager

ML/mb
Enc.

TRIDENT, INC.
1114 Federal Road
Brookfield, CT 06904
Tel.: (203) 740-9333
Fax: (203) 775-9660

February 5, 1993

Mr. Ova Anderson
MARKPOINT
S. Saterigatan 20
S-417 11 Gotebog
Sweden

TRIDENT STARTER KIT

Dear Mr. Anderson:

Thank you for your expression of interest in Trident's ink jet products. In order to provide you with an opportunity to evaluate these products, we would be happy to supply you with an Evaluation Starter Kit subject to the following understanding:

(1) Within 14 days of receipt of the signed Starter Kit Agreement, purchase order and fee, Trident will ship two Starter Kits including one (1) Ultrajet™ HiDef™ compatible 96/32 low profile LISS printhead 36" tube length, PC BUS Driver Board kit and one (1) Ultrajet Jetwrite™ compatible 32/32 low profile LISS printhead, 36" tube length, STD bus Driver Board kit.

(2) The fee for the provision of these kits will be $5,394.00. This fee does not provide for two (2) man days of technical assistance and training at Trident's Brookfield, Connecticut facility, normally provided to Start Kit customers. Should you wish to avail yourself of this training at a later stage, it will be provided for a fee of $1,000.00 (not including any travel, lodgings, meals or other living expenses).

(3) You will maintain in confidence all Trident technical information you receive which has been designated as confidential by Trident, serve to the extent that the same falls into the public domain other than through the action of MARKPOINT.

(4) The Starter Kit components are to be used for internal and field test purposes only.

(5) The Starter Kit will be backed by Trident's standard test performance warranty; but no warranty is made or implied as to the suitability to your specific application.

If the foregoing is acceptable to you, please execute and return one original. The other original is for your files.

Very truly yours,

/S/ R. H. VAN BRIMER
R.H. Van Brimer
President and CEO

Date: 2/5/03
RHVB/mb

Company name

MARKPOINT DEVELOPMENT AB

By: */S/ OVA ANDERSON*

Ova Anderson
(Print Name)

(Title)

Date: 9/2-93

FEBRUARY 9/1993

Mr. R. Hugh Van Brimer
TRIDENT INC.
1114 Federal Road
Brookfield, CT 06904
USA

Dear Mr. Van Brimer:

Enclosed you will find one signed Starter Kit Agreement in return.

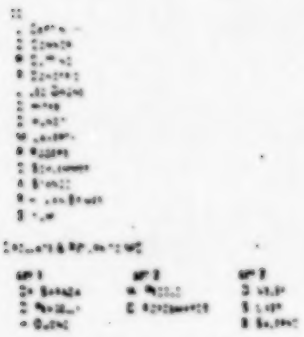
Sincerely,

/S/ OVE ANDERSON
Ove Anderson
Markpoint development AB.

EXHIBIT 4

FEBRUARY 13, 1997

MONTHLY MANAGEMENT REPORT
FOR JANUARY 1997



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TRID 024035

TRIDENT, INC.

CONFIDENTIAL

EXHIBIT 4
PAGE 40

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Technology Barriers to Entry

Barriers to entry of a competitor into Trident's markets are considerable. Our technology required an initial investment of approximately $20m and at least $10m of on-going R&D and process development. This work resulted in an extensive portfolio of patents and confidential knowhow. All of the impulse ink jet printheads on the market today required similar or higher investments.

The piston type transducer opposite an orifice is a fundamental patent. The advantage of this configuration is that it can provide large volume displacements and high frequency drop generation. It also separates the ink from the piezo material. The draw-back is that channel density is relatively low, although with a similar geometry, Epson has successfully miniaturized the components. Reducing the size also reduces the performance. Additional knowhow and patents relate to static and dynamic flow through the manifold, restrictor and chamber to optimize throughput and pressure oscillations and to minimize crosstalk.

The multi-orifice patent is also fundamental and it enables taller images and higher throughput. Knowhow relates to orifice profiles and spacing limitations, surface finish and manufacturing techniques and qualified suppliers.

The drive waveform is proprietary. A patent on sub-pulsing is important to allow non-porous inks to be jetted. This patent describes the application of a sub-ejection level voltage to the piezo crystal high enough to move the meniscus but low enough not to eject a drop. This stops a film from forming over the orifice.

Variable grey levels using multiple drops that merge in flight or at the same point on the substrate is patented. This will be

an important patent for Wide Area printing, but we do not use it today.

Trident possesses a considerable amount of knowhow in the processes used to build a printhead, including chamber plate to orifice plate bonding, attaching and then porting the pistons onto the piezo crystal, preparing the surfaces to wet/not wet as required and various methods of testing.

Ink the ink area, in addition to patents which provide some protection to all of the main inks, the optimization of the ink to the printhead requires intimate knowledge of the printhead operation and performance limits. Chemistries primarily include die and resin technology. Trident employs a staff of ink chemists and works with ouside developers. All of the formulations used today are owned by Trident and Trident is capable of their manufacture if required. Development work with a number of outside ink manufacturers is only performed after they agree only to supply the ink the [sic] Trident, not to competitors or end users.

Exhibit 5

Investment Highlights

- Dominant market position focused on industrial applications
- Proprietary technology protected by over 40 patents
- Increased adoption of automated identification systems
- Projected market growth of 40% plus in target carton coding niche
- 37% historical operating margins
- Substantial growth opportunities from new products and markets

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Exhibit 6

CONFIDENTIAL

Trident International, Inc.
1998 Marketing Plan

TRIDENT
INTERNATIONAL, INC.

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EXHIBIT 7

Trident International
1998 Marketing Plan

1.1 Market Overview

The industrial ink jet printing market is large and growing. Including sales of CIJ, valve jet and impulse jet systems and consumables, global sales were $1.06 billion during 1996. Sales are projected to grow to $1.65 billion in the year 2001 (Source: GIGA). Carton coding is expected to be the dominant growth driver.

Trident dominates the impulse ink jet printhead market and plans to grow aggressively through the year 2000 and beyond.

Trident Sales by Geographic Area ($ million)

	1996	1997	1998	1999	2000	2001
Total	25.9	30.1	36.6	51.0	64.5	73.7
North America	18.0	21.7	24.0	36.1	47.6	54.1
Europe	6.0	5.8	9.3	10.4	11.9	14.1
Far East	1.9	2.5	3.3	4.5	5.0	5.5

Sales of Trident Ink Jet Systems and Consumables ($ million)

	1996	1997	1998	1999	2000	2001
Total	25.9	30.1	36.6	51.0	64.4	73.7
Imaging Subsystems	15.8	17.7	21.2	33.9	47.0	55.4
Consumables	8.2	10.9	14.0	15.7	16.8	17.6
Other	1.9	1.5	1.4	1.3	0.6	0.7

Challenges for Trident
Trident faces several major challenges including the emergence of less expensive inks and less expensive impulse ink jet print heads.

In order to achieve growth objectives, Trident must capitalize on all of its strengths, continue leading edge product development and broaden its business to new markets and new applications.

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TRIDENT, INC.

Presentation to the

Board of Directors

October 25, 1995

Brean Murray, Foster Securities Inc.
633 Third Avenue, 11th Floor
New York, NY 10017
(212) 476-0700

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MARKET POSITIONING OF TRIDENT

Company's Positioning

- *Trident is significant beneficiary of growth in industrial printing and marking*

  On-demand printing of carton and boxes is Trident's largest market segment, representing almost two-thirds of its sales. New printheads and inks under development will allow Trident to exploit product marking opportunity.

- *Trident is the leader in piezo-electric ink jet*

  Trident is the technology leader in an increasingly important segment of the overall ink jet market, with a dominant market share and a broad patent portfolio. The value-added component of Trident's technology generates a high gross margin (>60%).

- *Piezo has advantages relative to other ink jet technologies*

  Piezo utilizes an extremely simple mechanism, with virtually no moving parts. This makes it a less expensive, more durable, and flexible device, and thus suitable for industrial applications.

- *As OEM supplier, Trident has extremely efficient marketing and administrative operation*

  Lean overhead structure allows for low operating expense ratio, producing an EBITDA margin in excess of 40%.

- *The Company derives substantial portion of its revenues from sale of consumables.*

  Trident's marketing focus is on customers with heavy ink usage. This generates an annuity from the sale of inks, which accounts for approximately one-third of total sales.

- *Management has significant experience in ink jet field*

  Hugh Van Brimer holds 14 patents in ink jet field and related technologies. Elaine Pullen has held senior marketing and technical positions at several ink jet companies prior to joining Trident.

Exhibit 8

Technology
Technology—Misc.
Prudential Securities

Trident International

Company Report

Rating: BUY
TRDT @2 1/2—OTC

B. Alex Henderson (212) 778-1527
Lissa Bogaty (212) 778-5252
Yang Lie (212) 778-1724

May 24, 1996

	Earnings Per Share Fiscal Year Ending			P/E	Incr. Ca.	Yield	Shares O/S	52-Week Range
	9/95*	9/96E*	9/97E	9/97E				
New	$0.51	$0.83	$1.04	21.6X	—	—	7.2	33-17
Old								

DJIA: 5778.00
S&P 400: 806.72

* Pro forma for the initial public offering. Priced as of the close, May 22, 1996.

Buy Trident, The Technology Leader In The Ink Jet Market

- **Impulse Ink Jet Market Growing 40%—Trident Dominates.** Trident is the technology and market leader in the emerging impulse ink jet market, particularly in industrial applications such as carton coding. The company's core ink jet technology provides superior price/performance as well as flexibility and durability compared with other ink jet printing technologies or alternative printing modalities. Trident dominates this niche, and the technologies of Canon and Hewlett-Packard are not applicable to Trident's industrial arena. The speed, flexibility, image quality, and low cost of impulse ink jet is driving the displacement of continuous flow ink jet, valve jet, pressure-sensitive labels, and preprinted cartons, resulting in 35%-50% growth for impulse ink jet over the next 3-5 years.

- **Strong 30%-Plus Sustainable Revenue Growth With Stable 38%-42% Operating Margins.** Since 1991, Trident's revenues have almost tripled to $17.3 million in FY95. We expect a 50% jump in FY96, and while we are conservatively opening growth to vicinity of 30% in FY97 and FY98, we firmly believe this leaves plenty of upside for positive surprises given the 40% annual growth we expect in the emerging impulse ink jet market. Gross margins of 60%-plus and operating margins in the 38%-42% vicinity, depending on the mix of printheads and consumables should remain stable over time. We forecast earnings pro forma for the equity offering to increase from $0.51 per share in FY95 to $0.83 in FY96, a 66% increase. In FY97 and FY98, we expect $1.04 and $1.30, a 25% annual increase, leaving us much as 10%-20% upside annually for positive surprises.

- **Targeting $28 Over 12-18 Months, A 24% Upside.** At 21.6 times FY97 estimates, we consider TRDT to be undervalued. We are setting a target of 26-27 times forward earning 18 months out. This yields a 12-18-month target of $28, a 24% upside.

SMALL RESEARCH CAP

Exhibit 9

William L. Potter (212) 237-2234
Patrick J. Parr (212) 237-2319
Alex. Brown

June 3, 19

TRIDENT INTERNATIONAL, INC./NASDAQ (TRDT):
Demand Strong But Selling Cycle Extended; Slight Reduction in FY1997E EPS -- "Strong Buy"

Price 6/3	52-Wk Price Range	EPS (FY: Sep.) 1996A*	1997E	1998E	Cal. Yr. P/E 1997E	1998E	Indicated Div.	Yld.
20 1/2	15-25	$0.84	$1.10	$1.40	17.7x	13.9x	$0.00	Nil

FY Sep.:	1996*	1997E	1998E	C1996*	C1997	C1998
1Q	$0.18	$0.24A	$0.30	$0.20	$0.27	$0.3
2Q	0.26	0.27A	0.33	0.22	0.28	0.3
3Q	0.22	0.28	0.37	0.24	0.31	0.4
4Q	0.24	0.31	0.40	0.24	0.30	0.3
Fiscal Year	$0.84	$1.10	$1.40	$0.90	$1.16	$1.47

* *Pro forma for the IPO of 3.5 million shares on 2/27/96*

INVESTMENT HIGHLIGHTS

- Based on conversations with Trident management and with a sampling of its OEM customers, we are reducing our our F1997 estimate from $1.12 to $1.10, and our CY 1997E EPS from $1.18 to $1.16. In doing so, we are now in line with consensus estimates.

- The reason for the slight revision is that we believe the selling cycle for Trident's OEM customers is increasing as more OEMs are effectively competing for some of the same business. The implication is that OEMs might experience some delays in expected orders over the next two quarters as customers choose between multiple Trident-based proposals; nonetheless, overall demand remains strong.

- Our FY 1998E and our CY1998E EPS are unchanged at $1.40 and $1.47 respectively. We are encouraged by increasing participation by OEMs. Trident is gaining share with OEMs and end users, which supports our thesis.

Trident is rated "strong buy" with a twelve month price target of $35 reflecting a 24x multiple on CY 1998E EPS of $1.47.

comparison to label printers. Trident is benefiting from a replacement cycle from labels to direct carton coding.

4) A Proprietary Solution -- Only Trident supplies the (patented) ink jet sub systems that provide the high resolution for readability of barcodes required by Walmart and other retailers. As two VARs put it, 'Trident is the only game in town for both ink jets and ink.'

5) Growing Razor Blade Sales -- Ink sales were 35% of total revenues in 3Q:97, up 49% year-over-year. Trident's newest products consume more ink than the older products. And Trident is the sole source for the proprietary inks that are compatible with their ink jets.

VALUATION/CONCLUSION

We rate Trident shares 'strong buy' with a 25% long term growth rate and a 12 month price target of $35 reflecting a 24x multiple on CY 1998E EPS of $1.47.

Additional Information Available Upon Request

Alex. Brown & Sons, Incorporated maintains a net primary market in the common stock of Trident International.

Alex. Brown was an underwriter for the February 1996 offering of 3.5 million shares of common stock of Trident International.

Exhibit 10

MARKETING PLAN

1992-93

TRIDENT, INC.

Rev. Date May 20, 1992

I. INTRODUCTION/SUMMARY

SITUATION ANALYSIS:

At the mid point in the FY 1991-92, Trident finds itself behind its target goals for the year. Both internal and external factors have led to this shortfall.

The following external factors can be cited. Cooperative efforts with our largest customer have resulted in greatly improved quality product. Unfortunately, as a result of this improvement, this account has readjusted its purchase requirements to about one half of those originally anticipated. Also, the Persian Gulf economic slowdown has caused several of our other major accounts to readjust their forecasts. This sudden and dramatic decrease has left Trident with a void that will be hard to fill in the short term.

Internally, Trident has been delayed in the introduction of new products which were included in the current business plan. The [illegible] ink has delayed the full penetration of several market segments, primarily postal addressing. Although we are behind plan for this year, Trident has been profitable every month and is positioned to grow financially. Despite lower than planned revenues, Trident expects to grow at least 15% this year.

A number of new product introductions during the final half of 1991-92 will help adjust for the shortfalls noted above. [illegible] is now ready for full introduction. The anticipated release of a [illegible] for postal coding and a Non-Porous ink for product marking will also greatly increase the present limited scope of applications for the Trident Imaging Subsystem. Colored Ink and the availability to a complete imaging system are also under consideration.

Despite the recent shortfalls, Trident is [illegible] than it was one year ago. The most important changes has been the strengthening of relationships with key customers and the implementation of a stronger professional team. With the addition of new OEMs, Trident is no longer highly dependent on one account. Our customer list has grown to 20 active OEMs, up from 3 two years ago. In addition, 12 Starter/Evaluation Kits have been purchased by new potential customers since October of 1991. The Trident[4] and Ultrajet [illegible] are now in [illegible] worldwide due to expanded sales efforts in Europe and the Far East. Lastly, the [illegible] has improved dramatically along with expanded production output.

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COMPETITIVE SITUATION:

Fortunately at this juncture, no viable technology that offers the same capabilities as Trident's Imaging Subsystem are available for industrial applications. Trident has recently become aware of several companies with technologies that could be viable threats in the future. We estimate these to be several years behind Trident in development. Simply stated, "for the buck", no other non-contact imaging system can produce the same print quality at high speeds and provide the simplicity and ease of use. There are several ink jet technologies that compete with Trident on a less than head to head basis. Trident continues to face an entrenched and solidly installed base from these competitors. For example: Videojet, Imaje, Domino, Marsh, and Kodak.

We have also been made aware of our first competitor in the ink business. A small company, ERT Ribbon, has contacted Trident customers seeking to sell a knock off ink that they claim can be used in a Trident system. Trident is prepared to use legal means to support the patents surrounding our inks. Most of our licensing agreements also help keep customers committed to using Trident consumable products.

Nevertheless, the single largest long term threat to Trident's business plan is the introduction of a heretofore unknown imaging technology offering a superior set of attributes. Through literature searches, conference attendance, and word of mouth, Trident will keep appraised of developments of potential competing technologies. As Trident matures its manufacturing capability, the experience curve will provide reduced costs which could allow Trident to compete with a newly introduced technology or competitor. Trident will monitor the progress and marketing directions of On Target Technology (OTT), Spectra, XAAR and Kodak's Ektajet line.

Quite often Trident competes against other technologies for imaging applications. The following is a condensed competitive analysis.

Characteristic	Trident	CU	DOD (Valve)	Bubble	Thermal	Other Impulse
Speed	High	Equal	Less	Less	Much Less	Somewhat less
Image Quality	High	Less	Less	Equal	Much Better	Better
Cost	Low	Very Hi	Equal	Much Less	Higher	Much Higher
Image Area	1"	Less	More	Less	More	Various
Substrates	Porous	All	Porous	Porous	Dedicated	All
Consumable Cost	Very Low	Low	Low	High	Very High	Equal
Head Size	Small	Large	Equal	Smaller	Large	Larger
Print Distance	Short	Long	Long	Shorter	Contact	Shorter

Exhibit 11

TRIDENT INTERNATIONAL, INC.

INTER-OFFICE MEMORANDUM

DATE: January 22, 1999

TO: File

CC: Valerie Lapinski, Andrew Borg, Don Hicks, Bob Donofrio, Norman Norris

FROM: Elaine A. Pullen

SUBJECT: Visit Report: Videojet Systems Intl. January 21, 1999

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Present:

Craig Bauer	President & CEO, VSI
Tom Barnett	President, Marsh Co.
Paul Witt	Director, Global Accounts, VSI
Valerie Lapinski	President, Dynatec
Elaine Pullen	President & CEO, Trident

Purpose:

To discuss resolution of Marsh/Videojet's breach of contract due to use of Marsh manufactured non-Trident ink in Trident printheads.

Discussion:

Tom Barnett repeated that he is only selling Marsh ink in either new systems or to win back lost accounts. We know this to be untrue. A Marsh distributor and two other OEM customers have confirmed that Marsh's distributors are being provided with an incentive to convert the installed base of both Marsh and other Trident OEM's systems. Tom continues to allege that his action was necessary to maintain profitability and that Trident has failed to either prevent Graphic Controls from selling third party ink, or to offer Marsh an acceptable price concession on Trident ink. Tom claims that his action was determined only after negotiation failed. We also know this to be untrue as the ink development started at least three months before discussions on a new agreement commenced. Tom also reluctantly agreed that a price increase is planned for Trident ink in April. Valerie again stated that ITW has considerable legal resources as compared to Trident and that they have started a thorough legal review and will take appropriate action to stop Graphic Controls.

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Valerie also stated again that ITW does not allow contracts to be breached and although our desire is to avoid a legal action, an injunction and damages are the likely outcome. ITW would also, if pressed, discontinue the supply of printheads to Videojet and Marsh.

Trident is agreeable to Marsh using a differentiated bottle but not to a non-Trident ink being used.

Valerie requested a sample bottle of Marsh ink and the ink formula to allow Trident to estimate the cost of producing them for Marsh. We also reminded Marsh that we have rights to the ink under the agreement, which appeared to take Tom by surprise. He has clearly not examined or interpreted the grant back properly and is under the impression that only patents are granted to Trident, not confidential or proprietary designs, which is wrong. Marsh agreed to send the bottle and formula ASAP. Trident agreed to prepare a proposal covering only the issues directly related to maximizing and protecting the ink business for both parties. Time frame to present a proposal is 2 weeks after we receive the ink.

I asked Tom how we should handle warranty claims for heads now that they may contain non-Trident ink. Tom believes that our warranty cover is minimal anyway except on new heads out of the box, and the three year CP/OP warranty. Marsh tests at incoming inspection with solvent, therefore they believe these heads should still be covered. I will check warranty claim history.

Videojet has successfully prevented Graphic Controls form copying their ink. Craig agreed to look up the nature of the settlement and provide the information to Valerie.

Finally, Videojet and Marsh were asked to stop selling their own ink while we negotiate an agreement. They agreed to discuss it and let us know their decision early next week.

Elaine

Exhibit 12

TRIDENT INTERNATIONAL, INC.

INTER-OFFICE MEMORANDUM

DATE: February 15, 1999

TO: File

CC: A. Borg, D. Hicks, V. Lapinski, R. Conoffio

FROM: Elaine Pullen

SUBJECT: Visit Report: Videojet Intl. Inc. February 12, 1999

Present:

Tom Barnett, President, Marsh
Paul Witt, Global Account. Director

Valerie Lapinski, President, Dynatec
Elaine Pullen, President, Trident

Purpose:

The meeting was requested by Tom in response to my letter of February 5 to Craig Bauer in which I demanded full disclosure and assignment of ink and bottle designs, and compliance with the ink purchase provision of the license agreement.

Discussion:

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1. Grant-Back

Videojet's inside and external legal counsel has advised them that the grant-back does not apply to the ink. We disagree.

However, Videojet will provide full details of the formula and process to enable Trident to make or have made the AD1 ink.

Videojet did not dispute the bottle grant-back. They were asked for a copy of the patent application. It seems that the patent may not have been filed yet. Tom will check.

2. Ink

3

Trident agreed to supply Videojet/Marsh with both the AD1 ink and Trident ink. It may be packaged in either the Trident or Marsh bottles. Trident will have the bottle made themselves, or purchase it from Marsh, whichever is most cost effective. The bottle will be exclusive to Marsh. The ink will be sold to all customers, provided reasonable commercial terms can be agreed.

Prices for the ink were given. The attached package was given to Videojet/Marsh, covering underpaid invoices and pricing for printheads and ink.

Marsh did not object to AD1 pricing but are still unhappy with the Trident ink price of $85.45. Their 1997 price was $80.50.

Marsh have been running their heads at 65°C for the past year, which is the required temperature for AD1. V-300 will have reduced throughput at 65°C.

TRID 33012

Exhibit 13

Ink Pirate Analysis

July 1, 1999 0 Hits

Per 1/2 liter bottle
Black vs. Only

	OEM	Distrubutor	Enduser	Average	
	2X Mark-up	25% Mark-up			
Trident					
Low	$70	$140	$175	$200 -$ 210	
* High	$110	$220	$275		
Diagraph via Fox	$134	na	$175 - $210		« Don't make nearly as much as our other OEM's
Graphic Controls					
High			$189		Offering $250 refurb process
Med.			$180		« Knauss Foods Quote via Diagraph
Lowest			$140		« Reported by Marsh
Squidd			$89		« Refill our bottle at end-users * Save 60% off High Res* Mostly sell direct to End User
Independant Ink		$160	$189		Sourcing from Renewable Resources
Marsh AD-1					
High			$150		« Use to be competitive?
Low			$60		« Reported by Loyd?

CONFIDENTIAL

TRID 037894

EXHIBIT N
TO WYTSMA DECLARATION

1(WED) 10:05 PRICF RHOUSECOOPE TEL:21 7960 P.001

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
400 S. Hope St.
Los Angeles CA 90071-2889
Telephone (213) 236 3000
Facsimile (213) 620 9962
Direct phone (213) 336-3171
Direct fax (213) 452-7960

Fax cover sheet

To: Laura Wyisma
Company: Sonnenschein
Addressee fax No.: 213-623-9924

From: Carlyn I. Brown
Return fax number: (213) 452-7960

Date: 4/4/01
No. of pages: 11 (incl. this page)

If this fax is incomplete or illegible please telephone (213) 336-3171

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4-4-01 11 pgs.

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TRIDENT INK BUSINESS
A
FACTUAL REPORT
TO AID IN
PREPARING THE DAMAGE MODEL
FOR
INDEPENDENT INK INC.

Prepared by
Ranganathan NK
Executive VP & C.O.O.
Independent Ink Inc.

TOPICS

1. Trident Business : Executive Summary
2. Independent Ink Inc. : Business Summary
3. Business Model of Independent Ink for Hi – Resolution Ink.
4. Trident Market Share
5. Trident Ink Pricing model .
6. Independent Ink Pricing model
7. General Mills (Yoplait) : A Case study.
8. Summary

TRIDENT BUSINESS: EXECUTIVE SUMMARY FROM III PERSPECTIVE

Trident Inc. (Currently a division of ITW) manufactures and offers peizoelectric impulse ink jet printheads to original equipment manufacturers who then incorporate Trident printheads in to devices to print directly on to Cartons , check transaction coding , addressing etc.

The largest application for Trident printhead is the Carton Coding, which involves directly printing on to shipping cartons.

As is noted in their prospectus, a reduction in demand for carton coding systems would have a material adverse effect on Trident's business. This shows that the major business of Trident is for the Carton Coding industry.

The MAJOR REVENUE AND PROFIT STREAM for Trident is the sale of Ink in to the carton coding industry. As detailed in their prospectus, in Fiscal 1995 67% of Trident net sales came from Carton Coding. As per their prospectus, the market for Carton Coding systems will grow from $25 million in 1994 to $140 million in 1999 based on end use prices.

Trident through its Licensing agreement and a Single use License stamp on the bottle is trying to. keep the ink market closed to alternate ink suppliers like Independent Ink Inc.

Another Strategy of Trident was to sue company's like Independent Ink Inc. for infringement of their ink patent and violation of their single use license. Independent Ink Inc. has since prevailed in the Ink patent infringement law suit and is currently in litigation with Trident on the Single use license and the infringement of the 226' patent.

Trident sells their printheads to OEM's, who then construct Carton coding equipment to print directly on to Cartons. Trident sales for Carton Coding come from approximately 10 OEM's. All OEM's , customer of OEM's and end users are bound by the licensing agreement that prevents them from sourcing their ink from anyone else:

Trident by virtue of its licensing arrangement with its 10 OEM's pretty much controls the Hi-Resolution carton printing market. There have been other players in the market with other technology (such as hot wax) for direct printing such as Spectra but they have not been able to get even a minute market share from Trident.

It is a fact that Trident owns more than 95% of the NICHE market for direct Hi-Resolution printing on shipping cartons by

1. Their Patents on printheads and ink delivery systems.
2. Licensing agreement with top 10 OEM'S.
3. Their Single use license and "Do not refill" stamped on the bottle.
4. Suing Alternate ink companies on patent infringement.
5. Threats to OEM's to stop cuppiies of printheads if they source ink elsewhere.
6. Threats of possible law suits to end users to prevent them from refilling their bottles.

All the above issues have created serious barriers or entry in to the ink market for alternate ink manufacturers like Independent Ink , thus allowing Trident to enjoy unrestricted Monopoly.

Feb 26th 2001

INDEPENDENT INK INC. — BUSINESS SUMMARY

Independent Ink inc. was started in 1939 as a ink company offering Ink products for a variety of Industrial applications. Around 1980 Independent Ink Inc., got in to the Industrial Ink Jet business by offering alternate inks and make - ups and service to

1. D.O.D or the Valve Jet printers used for printing Large Dot Matrix text with very low resolution printing on to Cases and trays.
2. CU or continuous ink jet printers used for printing Small dot matrix text directly on to product packaging for date coding such as best before dates etc...
3. Hi-Resolution inks for Peizoelectric impulse ink jet printheads (TRIDENT) for Hi-Resolution Bar-Codes and text printing directly on to the shipping cartons. (early 1990's)

Independent Ink Inc. also offers a host of other alternate ink products and services to the Wide format Ink Jet market, consumer or desk top ink jet market , Textile pinting etc.

Independent Ink had been offering the DOD and the CU inks and make - ups for the industrial Ink Jet market since 1980. Some of the major OEM's in the industry for the CU and DOD business are

CU	D.O.D.
Videojet (MARCONI)	Marsh (which is currently
Domino	owned by Videojet or Marconi)
Imaje	Domino
Willet	Image (Buys from Marsh)
Linx	Willet

Weidenbach	Linx
	Diagraph
	Mathews

Independent Ink currently supplies alternate inks and Make - ups to end user and distributors using or selling the above equipment. Independent Ink offers high Quality, 100% compatible inks and make - ups for most printers at a low price (approximately 30% lower than OEM price).

HI-RESOLUTION INK BUSINESS

Since the users of CU and DOD machines also used Hi - resolution Trident printheads for printing on cartons it was but a natural product expansion for Independent Ink Inc., to offer Hi - Resolution ink to the discerning users who were complaining of exorbitant ink prices from Trident OEM's. The sales of Hi - resolution ink is extremely profitable and offers very high margins to Independent ink and significant cost savings to the end user.

Independent Ink started to offer alternative Hi - Resolution ink for Trident printheads used in the Check cancellation application in 1991. The distributor of Independent Ink was threatened with law suit by Trident attorneys, who then stopped buying from Independent Ink Inc.

Around 1996, Independeat Ink launched its Hi - Resolution ink far Carton Coding by offering a refill and return service. The customers send in the original Trident bottles and Independent Ink will clean and refill the bottles with its own ink and return the bottle to the user. Thus saving him costs and reducing environmental pollution. Trident sued Independent Ink for violation of its singic use license, 226 patent and infringement of their ink patent. Independent Ink pre-

vailed in the Ink infringement law suit but has suffered significantly in the refill business, as it had to fight Trident's law suit. Additionally, By their tying contract, Trident prevented Independent Ink from selling Bulk ink or ink in any other format to the OEM's and Distributors.

Feb 26th 2001

BUSINESS MODEL OF INDEPENDENT INK INC. FOR SALES OF HI-RESOLUTION INKS FOR TRIDENT PRINTHEADS

Independent Ink target market for the sale of Hi - resolution ink for Trident printheads used for printing directly on to shipping cartons are the end users, distributors and OEMs' and also a network of Independent representatives, packaging supply companies and service organization.

In a ideal situation, If there was no single use license, Independent Ink would have set up refill centers all over the United states with Independent reps and offered them bulk ink for refilling customers original Trident container thus offering a significant cost reduction.

The selling points of Independent Ink for refill program and for Bulk ink or sale of Trident compatible Ink in any other format are

1. 100% compatible ink (free and clear of any patent infringements)
2. Lower price
3. Refill service
4. Environmental benefit.

The law suit has severely restricted our ability to sell the refill program, or Bulk ink or our ink packaged in any format to OEM's, distributors, independent reps or end users as they feel threatened by a possible law suit from Trident.

The Trident Hi - Resolution market is unique,

1. It is a niche market clearly defined by Hi - Resolurion direct printing on to shipping cartons.
2. The market is narrow and it is controlled by Trident.

3. There is a single use license restriction on the bottle thus limiting refilling.
4. There are contracts between OEM's and Trident which pass on to Distributors and Customers thus seriously limiting their ability to source ink elsewhere.
5. Threat of law suit.

Independent Ink has lost significant market opportunity due to the impending Trident law suit in the refill market, supply of bulk inks to OEM's and Distributors or sale of our ink in any format to the Distributors and OEM's due to their tying contracts that extend all the way from the OEM to the distributor to the end user.

Feb 26th 2001

TRIDENT MARKET SHARE

TRIDENT MAJOR OEM'S FOR HI-RES CARTON CODING MARKET

1. MARSH (Owned by Videojet Marconi Data Systems)
2. VIDEOJET
3. DIAGRAPH
4. FOXJET (Owned by ITW)
5. WILLET
6. ITI (owned by ITW)
7. MATHEWS

TRIDENT MAJOR OEM'S ESTIMATED MARKET SHARE FOR HI-RES CARTON CODING PER CAP VENTURE REPORT

OEM	MARKET SHARE (1999)
MARCONI DATA SYSTEMS (includes Marsh)	51%
FOX JET (div of ITW)	13%
DIAGRAPH	10%
ITI (div of ITW)	10%
MATHEWS	5%
WILLET	3%
OTHERS	7%
TOTAL TRIDENT OEM MARKET SHARE	99%

All Inks for the above systems are supplied by Trident due to their contracts and singel use license. Independent Ink at the most would have less that 2% of Trident market share due to the restrictions.

ESTIMATED TRIDENT PRICING MODEL

Trident sells their ink to OEM's and we believe that the estimated price to OEM's are

Year →	1994	2000
	$	$
Trident price to OEM	130	85
OEM Price to distributor	220	175
Distributor to End User	280-325	200-250

All prices indicated above are for 17oz filled bottles (approximately 1 pint)

INDEPENDENT INK PRICING MODEL FOR REFILLED BOTTLE OF HI-RESOLUTION INK

Component	Cost
Ink (17oz)	$9.15
Labor + Packaging etc	$1.20
G&A (20%)	$2.07
Total cost	$12.42
Average sale price for 17oz	$158.00
Refilled bottle	

GENERAL MILLS : AN ACTUAL CASE STUDY

THIS PLANT HAS SWITCHED 100% TO INDEPENDENT INK REFILL PROGRAM

Description	Quantity
Number of installed Trident printheads	7
Number of Cartons Coded per year	40 million
Number of Refill Ink bottles purchased for 12 month period 1/2000 to 12/2000	.434
Average price per refill bottle	$149
Total business Volume / year	$64,666
Cost of filling 434 bottles	*$5390*
Gross Margins	$59,276

THIS PLANT WAS PAYING $269 PER BOTTLE TO TRIDENT OEM BEFORE THEY SWITCHED TO INDEPENDENT INK INC.

THIS PLANT SAVED $52,080 PER YEAR WITH THE REFILL PROGRAM.

SUMMARY

Trident's contracts with their OEM's, Distributors and End users, coupled with their so called "Single Use License" has prevented Independent Ink from refilling and selling its Ink, which is free and clear of any patent infringements.

If Independent Ink had not been sued by Trident, Independent Ink would not have faced the constraints and would have successfully promoted and expanded its refill sevicc to all of Trident customers and sold ink to distributors and OEM's.

Independent Ink has the reach through its current customer base for other Industrial Ink products to sell ink to Trident users. Independent Ink would have been able to sell its ink to Trident OEM's and Distributors if there were no tying contracts and law suit.

Independent Ink prices offer great savings to the Trident users and also helps the environment through its refilling program, eliminating hundred's of thousand's of thousands of bottles from land fill. Independent Ink also offers the customer the choice to save huge amounts of money by offering a good quality product at a low price.

By virtue of this law suit with Trident, Independent Ink has lost a tremendous opportunity to capture a huge part of Trident's Ink business. This is well established by the General mills model for refill business. In addition, Independent Ink has lost the opportunity to sell to Disibutors arid OEMs' as well due to Trident's tying contracts.

In a nutshell Trident has through their contracts and single use license has prevented Independent Ink from selling ink in any format to its OEM's, Distributors and End users.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

THE HONORABLE NORA M. MANELLA,
JUDGE PRESIDING

INDEPENDENT INK, INC.,	)	
	)	
Plaintiff,	)	
	)	
vs.	)	Case No. CV98-6686-NM
	)	
ILLINOIS TOOL WORKS,	)	
	)	
Defendants.	)	
	)	

REPORTER'S TRANSCRIPT OF PROCEEDINGS

Los Angeles, California
January 28, 2002

SHARON A. SEFFENS, RPR
United States Courthouse
Room 432-A
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Los Angeles, California 90012
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[Tr. 2] APPEARANCES OF COUNSEL

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LOS ANGELES, CALIFORNIA; MONDAY, JANUARY 28, 2002;10:00 A.M.

THE CLERK: Item No. 6, CV-98-6686-NM, Independent ink versus Illinois Tool Works.

[Tr. 3] Counsel, please state your appearances.

MR. O'CONNOR: Good morning, Your Honor. Edward O'Connor on behalf of Independent Ink.

MR. SIGALE: Good morning, Your Honor; Jordan Sigale on behalf of defendant Trident and defendant and counterclaimant Illinois Tool Works.

THE COURT: Good morning.

We are here on motions for summary judgment filed by both parties. I think I will not go through a lengthy recitation of the facts. The parties have been before this Court before. Essentially the defendants manufactured a patented printhead, a cable printing bar codes on corrugated materials and kraft paper. Original equipment manufacturers or OEM's installed the printheads in printers, which are then sold to large product manufacturers who then use them to print bar codes on their cartons.

Both Trident and Independent manufacture ink that will function with the defendants' printhead system, and the defendants condition the sale of their patented printhead system on their consumers also purchasing defendants' ink, a tying arrangement.

I believe it's undisputed that before Trident began [Tr. 4] manufacturing their printheads there were labeling machines — and still are — that print bar coded labels and could and

can be used to affix codes to the end products, and I believe that the record is clear that after Trident developed its printhead system at least two other competitors, Markem and Xarr, developed a printhead that would print bar codes on corrugated materials and kraft paper.

Its plaintiffs allegation that defendants' tying arrangements violate Section 2 of the Sherman Act per se, that is, they are per se illegal tying arrangements, and it's plaintiffs argument that because defendants have a patent on their printhead system they have market power, which they then use improperly.

Plaintiff also alleges in the complaint that defendants have monopolized, attempted to monopolize, and conspired to monopolize the market for ink used in connection with their printhead system in violation of Section 2 of the Sherman Act.

There is also a Cartwright claim as well, but it's not treated independently.

Plaintiffs motion for summary judgment is premised on its claim that defendants' tying arrangements constitute per se violations of Section 1 of the Sherman Act. It is the defendants' position that a patent on the tying product standing alone with no consideration of the product at issue or [Tr. 5] its substitutes confers market power as a matter of law requiring neither a definition of the relevant market nor a demonstration of the defendants' power in that or share of that market.

It's the defendants' position that no Court has ever held that patent tying is not a per se violation of the antitrust laws.

Mr. O'Connor, when you argue, I guess I will have to ask you about at least three cases that I found that in fact belie that assertion? Obviously there is a host of authority starting with Justice O'Connor's often quoted concurrence in Jefferson Parish. That is simply not the case.

Plaintiff does make the argument that patent tying cases are different, but there are in fact patent tying cases in which the Courts have continued to insist that the plaintiff both demonstrate the relevant market and demonstrate market power within that defined market.

There is some case law suggesting a presumption of market power, but I have seen nothing to suggest that even if such market power were presumed it could be presumed in the absence of a defined relevant market, and defendants' essential argument is that plaintiff's failure to either identify or define this market much less demonstrate market power defeats plaintiffs motion for summary judgment.

With respect to defendants' motion for summary [Tr. 6] judgment, it's a little more complex because the defendants are moving on all causes of action, but essentially, defendants are arguing that the plaintiff cannot establish — has not defined the market, cannot establish that the defendants have market power in whatever that relevant defined market might be and that by relying solely on the per se argument that a patent in the tying product alone confers power, end of discussion. Plaintiffs have essentially raised no triable issue of fact.

Defendants go through the various ways in which plaintiff might have defined the market and note — I am not entirely sure Mr. O'Connor would dispute — although he may have a definition of "market," I don't think Mr. O'Connor would dispute that he has not attempted to show that market through any traditional economic analysis, whether it's a geographic market or a product market.

It's also the defense position that the plaintiff has not attempted nor can he show that the defendants possess a dominant market share in that as yet undefined relevant market, and certainly that defendants' own statements that may appear in internal memoranda or in advertising or in publicity are themselves of no probative value for purposes of the anti-

trust laws, and I think also probably the argument that even a statement of percentage is meaningless unless you have a market defined.

Finally, the defense also argues among the various [Tr. 7] burdens that plaintiff fails to meet that the plaintiff hasn't identified barriers to entry, although there is some evidence in the record that at one time Trident considered the barriers to entry in at least part of a market to be difficult.

Obviously they didn't stop Markem and Xarr from eventually entering the market, nor presumably would those barriers apply to anyone wishing to sell a labeling machine that performs the same function as a printhead system that prints bar coded labels.

As to the Section 2 analysis, it's really not there. The defendants have moved on Section 2. The plaintiff does not address it in its opposition, and for that reason, obviously we don't have the proffered evidence that the defendants suggest would be necessary to create a triable issue of fact on the monopolization claim.

Mr. O'Connor, I think I would like to hear from you first.

MR. O'CONNOR: First of all, with regard to the issues of the markets and what we are defining as the markets, to me it was very clear, but maybe it wasn't to the Court that there are two markets. There is the market in which the Trident patented technology competes, and I believe their own documents and deposition testimony indicates that in that market which they have defined as the market — they use the term "market" continually in their own papers and in their own internal [Tr. 8] documents, even in deposition testimony.

THE COURT: Right, but the Courts are pretty clear that that doesn't have much relevance for antitrust analysis.

MR. O'CONNOR: If I may, the other market is the market for ink which is specially manufactured for use in that

patented technology, and in that market, the sole universe of sales is the Trident products. If you recall, during the Markman hearing, Trident produced witnesses who testified at length that only specially formulated ink will work in their system and that specially formulated ink for their system won't work anywhere else.

So the issue here is whether Trident has been using its patents — and I don't think that's controverted — to extend its monopoly to prohibit or inhibit the ability of competitors to sell ink for use with its system.

THE COURT: Well, normally tying arrangements are focused on the consumer.

MR. O'CONNOR: Well, these are focused on the consumer because the consumer is directly impacted. Among the consumers are the OEM's. The OEM's have who entered into these tying agreements are consumers of ink. They purchased that ink for resale, and we submitted affidavits or declarations to that effect.

THE COURT: Do they do that up front? Is that part of their agreement for buying the printhead?

[Tr. 9] MR. O'CONNOR: From Trident?

THE COURT: Yes.

MR. O'CONNOR: Yes. It's in theft OEM agreement.

THE COURT: That's right. They know it from the outset.

MR. O'CONNOR: That's right. From that moment, you have an illegal extension of the patent monoply by telling people who are buying this equipment that if they are going to buy that equipment they are also going to only buy their nonpatented consumables from Trident. That's a classic tying arrangement.

THE COURT: I don't think the defense disputes that it's a tying arrangement. I think they dispute whether it's illegal. Not all tying arrangements are illegal.

MR. O'CONNOR: A patent arrangement —

THE COURT: It's your position that all patent tying arrangements are, although certainly Courts have held otherwise.

MR. O'CONNOR: Well, I didn't find any Courts that held that a patent tying arrangement vis-a-vis — the only cases that I found and I pointed that out, and I have read all of their cases — involve an argument that vis-a-vis competitors in the tying market — that having a patent doesn't necessarily confer market power.

In other words, if you have A, B, and C, and A is a [Tr. 10] competitor — it makes Trident-like equipment — B is Trident, and C is the consumables, the fact that B has a patent doesn't mean they have market power vis-a-vis A or of the competitors. That's just common sense, Just because I have a patent on something doesn't mean anyone is going to want to buy it.

Those cases uniformly involve an argument relating to competition directly between what we call the tying products. In this case, it would be like the razor blade analogy. The tying products are razor blades, and I have a patent on a particular razor. That doesn't give me market power vis-a-vis other razors. Nobody may want my razor. That's what those cases have uniformly held.

No case that I have ever found — and I don't think there are any cases — say that vis-a-vis the tying product, the razor blades — that having a patent doesn't per se confer market power vis-a-vis the razor blades.

THE COURT: I guess I am not quite — well, I will let you proceed.

MR. O'CONNOR: Well, no, I would like to hear your question. Hopefully. I made that point, but —

THE COURT: No, no, go ahead.

MR. O'CONNOR: In this situation, you have — and I have cited all the Supreme Court cases that say that. When Justice O'Connor made that statement, I don't think she was referring to per se patent tying, but the majority did make [Tr. 11] reference to per se patent tying —

THE COURT: But that wasn't a patent tying case.

MR. O'CONNOR: I know, so you could say that there was dicta on both cases, but the majority cited to cases that were patent tying cases where that in fact was the holding of the Supreme Court. Their only argument, as I understand it, is that the Patent Misuse Reform Act changed everything.

THE COURT: I don't think that's their only argument. I think they make that argument, and you say — I think their argument is basically the late Professor Areeda's argument, that it would be nonsensical to impose a greater burden on a defendant seeking to use it as a shield than it would be on a plaintiff seeking to use it as a sword. That view seems to be shared by many. I understand your argument that Congress could have been clearer had it wanted to be, and it chose not to be.

MR. O'CONNOR; Well, it's more than that. If you read Judge Jenson's opinion —

THE COURT: In the Squid case, yes, but Judge Jenson just cites to a practitioner's article with a quote in it. It's certainly not necessary to Judge Jenson's holding in the Squid case.

MR. O'CONNOR: Well, that was a defense that they raised, and he rejected it. He rejected that same defense, and he cited not to just the article but the article's citation to the legislative history. The legislative history of that was [Tr. 12]

that they — special interests have been trying to knock down this per se patent antitrust thing for years. This Patent Misuse Reform Act was an attempt to do that.

I handed to you the comments of Henry Hyde when he introduced the bill in 1995, and in that — in his opening remarks, he acknowledges that this is the law, that patent tying is the law, and he wants it changed, and I recall that —

THE COURT: I guess Congressman Hyde isn't the last word on what the law is.

MR. O'CONNOR: Well, no, but on the other hand, why is he trying to change the law if the law is as it is?

THE COURT: I understand your argument, and I think it's a perfectly legitimate argument. That's what he thought the law is, but at the end of the day — you know, Congress writes lots of laws that judges ultimately disagree on the meaning of.

MR. O'CONNOR: I understand.

THE COURT: But you are absolutely right. He clearly considered that it was something that needed to be changed.

MR. O'CONNOR: At that time, I was the committee chairman at the ABA, and we were debating that very same law, and all these issues were brought to the floor, and because of the concern I had voiced by other chairmen, the ABA did not endorse this Hyde bill because of the concern of the impact it would have on patent tying.

[Tr. 13] If I could just address Professor Areeda's arguments just because I think it's important to understand the distinction, which I believe he missed with all due respect to Professor Areeda. That is, they are basically mixing apples and oranges. The Patent Misuse Reform Act — and I deal with that constantly. The problem with that was there were abuses in it.

You could have a willful infringer Remember I told you about the A, B, and C. A is an infringer. He sees B over here. He has a product that's patented, and A wants to copy his product. He also knows that B has an Illegal tying arrangement, so A comes in and says I am not affected by the illegal tying arrangement. Those affect C that sells supplies, but I am going to take advantage of that and willfully infringe, and people were doing that.

So to eliminate that abuse, the patent laws were amended specifically dealing with patent infringement cases to make as a requirement to asserting that defense that you would first have to show that the infringer was impacted by the market power of the patentee. That has nothing to do with whether or not the patentee's agreements in tying up supplies for his product and impacting that market was legal.

Those are apples and oranges. They are completely different concerns. The Patent Bar was concerned with the first, which is where the amendment came into being. The [Tr. 14] antitrust bar was concerned with the second, and the antitrust advocates for less restrictive antitrust laws included language in that bill to eliminate the presumption of market power in a tying situation, and they were voted down, and they tried it again I think in '92. They were voted down. They tried it again in '95, and they were voted down, so they have never been able to get that door open.

What is going on now is Trident is saying, okay, actually the door was opened. If it was opened, why did they keep trying to open it? It wasn't open. The statutory language is very clear. There is nothing in that statute which says anything about the antitrust laws, so the last word on that regarding whether there is a presumption of patent tying are the Supreme Court cases that specifically say that a patent conclusively establishes market power, and that's why it is per se.

The fundamental policy reason behind that is that patents are of a limited duration. They are a monoply. They are frowned upon. This society does not like monopolies, but we grant a limited monopoly for a limited time limited to the claims. I fight that battle all the time. What do the claims mean? How broad is your monoply? We do that battle every day.

What happens when you have an illegal tying arrangement is now you have extended your patent monoply beyond your patented product into a nonpatented product, and you have [Tr. 15] done it by a contract, so you are using your market power within the patented product, that you have power in that product alone, the particular printheads, the type of razor, and now you are using that power to expand your monoply to give you an exclusive monoply on things that are not patented.

That's more than Salt. That's Lowes Pictures, a whole slew of cases, and they are all Supreme Court cases. They [sic] has never been a Supreme Court case which has reversed that, nor do I believe there has been a District Court case. There have been some copyright cases outside the Ninth Circuit where people have said, well, maybe that presumption shouldn't apply in a copyright situation. Maybe you should have to show market power or not but never in a patent case because that has been held to be not illegal patent tying that I know of.

THE COURT: You have looked at Schlafly, Chumenata (phonetic), the Western District of Pennsylvania case, Lampold (phonetic) v. Roberts?

MR. O'CONNOR: I have looked at all of those. I have read Chumenata probably 200 times for other reasons, but that's a case that I have almost memorized. None of those cases say that you can have a patent tying arrangement and that it does not violate the antitrust laws vis-a-vis the tied product. There is not a case that says that.

One case which dealt specifically with the Patent Misuse Reform Act was Judge Jenson, and Judge Jenson [Tr. 16] specifically said that the Lowes Pictures and all those lines of cases are alive and well and still in full force and effect.

THE COURT: Do you agree or disagree with Trident's position that the Federal Circuit certainly doesn't take that position?

MR. O'CONNOR: Absolutely not. I cited you the Federal Circuit case, and I quoted extensively from that case, which — was it Mallinckrodt? I believe it was Mallinckrodt where they cite specifically specifically [sic] about illegal tying arrangements violate the antitrust laws, and they distinguish that case — they said that a patent tying arrangement is already illegal was what their language indicates. That was a case that did not involve a patent tying arrangement. That had to do with a single-use restriction.

THE COURT: But then if you are going to go beyond that, certain you have got to deal with all of the cases — Northern Pacific and the Supreme Court saying it's common knowledge a patent does not alway confer market power —

MR. O'CONNOR: Your Honor, I just addressed all that. Those cases do not involve an antitrust violation related to the tied product. That has to do with whether just because I have a patent on a product doesn't give me market power vis-a-vis my competitors. That's what they are talking about. Otherwise, how could you reconcile these statements if you have the Supreme Court saying it's an absolute presumption of market [Tr. 17] power, and you have got other cases saying it doesn't mean a thing? They are talking about different situations.

THE COURT: You have to admit that in Jefferson Parish certainly the language was dicta because it wasn't a patent tying case. It was hospitals and anesthesiologists.

MR. O'CONNOR: Sure. Same with Justice O'Connor's remarks. They are dicta, but my point was in Jefferson Parish the Supreme Court didn't just pull that statement out of the air. They cited to the Supreme Court cases that had held that where that was not dicta. That just happened to be a more recent pronunciation by the Supreme Court, but the cases they cite were not dicta, and the other cases I cited were not dicta.

There has never been a Supreme Court case that says that for a tying tied product relationship that there is ever an issue as to whether there is market power in the tying product if the tying product is patted.

THE COURT: I am not sure I understand your nomenclature, that there is market power in the tying product. What we usually say is the tying product market. Once you talk about the tying product market, then you are talking about a market that has to be defined by the tying product and its substitutes and potential substitutes.

MR. O'CONNOR: I think if you read the tying cases they don't talk about a tying product market. They say there [Tr. 18] is a market in the tying product. The tying product defines a market. That's what a patent is all about. That's why they say that because it's unique. It's the specific unique characteristics, and that defines a market. Now we are talking about what do you sell to that market?

So in the patented razor that uses a specific kind of razor blade, it's not a market in which that razor competes. That razor is a market, and then the issue is, well, who can sell razor blades in that market because they are specially configured?

It's the same thing we have here. It's special ink. That ink has the market, and the market is the printheads. All the cases that talk about a tying product market are cases where the

issue is whether the patented product has market power vis-a-vis its competitors, not vis-a-vis the tied products.

If you just stand back and think about it, if you allow that, what you doing is you are allowing somebody to take a patent and then just expand that patent way beyond the claims of the patent. That's the policy that the Supreme Court has clearly enunciated is prohibited.

I challenge the other side to come up with a case — this would be a case of first impression. It would be overturning all the Supreme Court precedent saying it's a per se violation of the antitrust laws.

[Tr. 19] You have raised questions about what is market and market power. Hopefully I have addressed those as they relate to the others as well, but in terms of is there evidence of market power, there are many ways of showing market power, and those include putting economists on the witness stand. That's evidence.

Evidence is also admissions. A percentage of the market establishes market power. That's at least one of the fundamentals, and there are presumptions depending upon how high that percentage is. In this case, we have an admission they had 90 percent of the market. We —

THE COURT: I don't know what that quote meant frankly. I think you quoted a portion of a page. I am not even sure we had that deposition lodged.

If I say I sell 90 percent of Altoid mints in California, that doesn't tell us much, does it, for antitrust purposes?

MR. O'CONNOR: No, but in context, if you are saying we have developed a special kind of mint and we have a niche market for these mints because they give you energy or whatever, and we dominate the market for this specific type of mint, that's the relevant analogy, not just mints.

Again, we go back to what does a patent mean? They developed — and they brag about it and rightfully so — a very particular type of patented technology and for a specific use. [Tr. 20] Before Trident, there wasn't any direct printing on carton coding of these huge crates and things like that. You had to use labels, so they came up with a new technology. They patented that new technology. They have almost no competition in that technology. XArr got in. I think Xarr went out. Those came in a very limited basis. There were differences in their technology. It wasn't exactly the same, but they did do the direct printing.

In terms of market share, there was Trident, and then there were a couple of wanabees. That defines a market. In their documents, they repeatedly refer to the "market," "our market," the "Trident market." That particular technology is a niche market. It has particular characteristics. It's different from labels. It has advantages over labels. It has some disadvantages over labels, but it is its own specific type of technology, and a couple of other people were able to get in — well, in the first place, other people couldn't get into the technology defined by their patents.

THE COURT: That's obvious.

MR. O'CONNOR; My point is the people who did come in had to get around their patents, and as a result, their technology was greatly inferior, and they were never able to get a hand-hold on that market. Trident has basically owned that market, particularly at the time — the relevant time period here is when those OEM agreements were entered into.

[Tr. 21] That's the time period I was asking Ms. Pullen about, and she said they had about 90 percent of that market at that time, so they dominated it, and then the other documents, including end-year reports, talk about Trident dominates. We are in a position to dictate to our customers, which is a classic illustration of antitrust power.

That goes to all the counts where market power is relevant. If they have market power — at least there is certainly evidence — their own admissions — or at least nothing — at a minumum creates an evidentiary issue as to whether they had market power I think is conclusive because you have an admission of a party. If somebody admits to murder, it's not a defense to say, yes, but they didn't match up the ballistics. A confession is a confession. An admission is an admission. More to the point —

THE COURT: But if they said I the shot the gun, that's not an admission of murder —

MR. O'CONNOR: That's correct, but if they said I shot the gun and killed that guy, and here if they say we have market power and we dominate the market, that's the analogy. They did not introduce one scintilla of evidence that they didn't dominate this market. They have never said we didn't have 90 percent market share. They have never said we didn't basically own the market. They didn't say we didn't drive the market. There is nothing from them to counter their own [Tr. 22] internal statements. This record is bear of anything other than their own bragging basically that they dominate the market.

The two basic issues are what's the market, and its important to understand that there is a market in a patented product, and then there is a market in which the patented product competes.

O matter which way you look at it, Trident had market power. They had market power in their own technology by virtue of their patent, and — again, this is not a case where we are talking about nails that you could use in, you know, a patented nail gun. We are talking about a specific formulated ink. If you recall, they tried to — they brought a patent suit on our ink formulation, and their whole theory was only specially formulated ink will work in this technology.

They lost that patent suit. If they had won that patent suit, then they would have been in a proper position to say we could stop people from selling ink, but they lost that. They had no patent rights to keep Independent or anybody else from making the same type of Ink, and yet they are doing it because they used the power of their patents to force people — OEM's who wouldn't go to anybody else — the OEM's to prevent them from buying ink from Independent or anybody else, and that's a classic violation of the antitrust laws.

THE COURT: Thank you.

[Tr. 23] Mr. Sigale.

MR. SIGALE: Your Honor, it seems from Mr. O'Connor's comments that we are not as far apart as I once thought we were. I think there is agreement that the test in Jefferson Parish applies. I guess the question is how do you apply it?

This test has four parts. I won't run through it. I am sure the Court probably has it by memory by now. We focus on the third element, whether or not there is sufficient power in the tying product market. That is the current state of tying law under Section 1.

As I had previously understood Independent's argument, it was that there was a presumption where there is a patent that there was sufficient power in the tying product market. Now there seems to be some other definition that dates back to before the Fortner decisions of the Supreme Court, which I think everybody agrees changed the law on tying, which culminated then in the Jefferson Parish decision, whether or not there is sufficient power in the tying product market as Your Honor has already pointed out.

Then we get down to how do you define the market? Mr. O'Connor defined two markets. One I believe is the tying product market — and I want to focus on that — as the market in which the Trident printhead competes. I think we agree

on that. The tying product market is the market in which the Trident printhead competes. Unfortunately, that definition is [Tr. 24] circular. It begs the actual question. What does the Trident printhead compete with?

As Your Honor pointed out in your opening remarks, we compete with preprinted labels, We compete with labels on demand. Trident competes with Xarr and Markem. There is no evidence that Xarr and Markem have gone out of the marketplace, and until now, I had no inkling that they have. As a matter of fact, I don't believe they have gone out of the marketplace.

In fact, Trident competes with lots of things. There was even evidence in the record that people are still buying preprinted boxes. What it comes down to —

THE COURT: Well, I think one of the OEM's said — you may be referring to other evidence — but that he had to essentially persuade his purchasers to go to ink jet printing over labels which they preferred.

MR. SIGALE: Correct. There is certainly — I think what we raised was sufficient to show that they are not going to be able to prove a tying product market in which we have sufficient power, which is defined in Jefferson Parish's 30 percent of market.

Perhaps taking from your analogy on the Altoids, let's move to Mr. O'Connor's analogy on razor blades and razors. There are lots of patented razor stems out there. When I go to Target to go buy a razor, I look at how much the razor blades cost, and I make a decision whether or not I am willing to get [Tr. 25] into a new razor blade. If I don't like how much that new razor blade with the new fancy technology is going to cost me, I don't buy that new razor because I don't want to have to ultimately buy the razor blades.

I think that's what you are raising, and that's the issue of the OEM agreement. The OEM customers knew in advance

what this was going to be about. They understood that if they were going to get a license on the printhead technology that they were going to have to buy ink from Trident, and they agreed to that bargain.

There was no coercion. There were other technologies that they were in like Marsh as you pointed out. They chose to also get into the Trident technology. They still sell all of them to my knowledge, and Marsh is still selling print-and-apply label systems. They are still selling preprinted labels as well as the Trident system in competition with one another.

So when we look at that and try to figure out what a market definition could be, I think that has to be considered, and plaintiffs have presented no evidence on that point. They rely on this presumption, which I don't believe that they have supported here.

Mr. O'Connor when you asked whether or not there were cases in which Courts have held that there is no presumption you asked him about Schlafly. In fact, as this Court is [Tr. 26] obviously aware, Schlafly did in fact in a Section 1 tying case say there is no longer a presumption citing to the Federal Circuit's case in Abbott Labs versus Brennan.

In Abbott Labs versus Brennan, which Independent points out was a Section 2 case, the Federal Circuit looks at Justice O'Connor's opinion in Jefferson Parish and takes from that the point that patents do not in of themselves confer market power.

Your Honor had indicated there were cases that you wanted to ask me about.

THE COURT: No, not necessarily. I think I raised them with Mr. O'Connor. I think I understand your definition of the relevant market and the definition of — well, what the relevant market is and how you demonstrate market power, but Mr. O'Connor is making a distinction that in looking at

this case you have to look at the market vis-a-vis not the competitors.

In other words, you don't define the tying product market by looking to the market in which Trident printheads compete, but that you look to see what is the impact on those who are not in competition with Trident but who essentially want to sell to Trident — to those who have Trident printheads and to those who are now out of that market.

MR. SIGALE: Again, I come back to Jefferson Parish, which is the law on tying arrangements. You don't solely focus [Tr. 27] on the tied product market. You have to look at the tying product market. The whole concept behind tying is whether or not there was some coercion, perhaps something akin to a leverage theory, and there is just no proof here that that is true. They have other choices.

THE COURT: People have other choices. They can go to Markem. They can go to Xarr. They can go to Label. They don't have to buy Trident's printhead in the first place, and when they bought Trident's printhead, they knew what they were getting into.

MR. SIGALE: Correct.

THE COURT: It's not an Eastman situation, and it's not a situation where unbeknownst to the people involved, lo and behold, Trident turned out to be the only game in town for ink. They knew that when they decided to buy the printhead.

MR. SIGALE: That's correct, Your Honor. In fact, Independent has never raised the Kodak case I think for that very reason. That's why I believe the Kodak case is inapplicable. We actually have something much different. The game has always been played the same. There was this contract, and if you were going to take a license under the patented technology, then you were going to use the ink, which at the time of the contracts Trident believed was patented, but now we have learned otherwise.

THE COURT: I must say I had been focusing on the [Tr. 28] notion of the ink more in connection with the Section 2 claim, but I don't see any evidence of monopolization of the ink market, and I don't think —

MR. SIGALE: I don't know what to draw from the fact that Independent didn't respond to our Section 2 arguments other than they must concede the fact that they are not going to be able to prove that we have the market power, and perhaps Mr. O'Connor will speak to that, but we have pointed out the kind of evidence that's necessary in the Ninth Circuit to prove a relevant market so that you can go forward and prove whether or not Trident had sufficient power in that relevant market. They have put forward no evidence on consumer preference. They have put forward no evidence on supply, and they have put forward no evidence on barriers to entry.

Something did prompt me in the discussion before. Barriers to entry as they are defined in the Trident documents are irrelevant. Barriers to entry in an antitrust sense —

THE COURT: State that again.

MR. SIGALE; You were speaking about barriers to entry and the fact that in one of the documents Trident had mentioned that there were significant barriers to entry if anybody wanted be to be second comer.

In terms of "barriers to entry" as it is defined in the antitrust context, barriers to entry as the Seventh Circuit stated in Will versus Comprehensive Accounting is whether the [Tr. 29] rival's cost of creating a similar item is higher than the full cost of the original creator.

The evidence also shows in that same exact document that it cost Trident $20 to $30 million to produce the exact same technology. Whether there is a significant barrier to entry depends on whether or not it would cost the next comer more money. The fact that it will cost the second comer $20

to $30 million adjusted for inflation is not an antitrust barrier to entry.

THE COURT: In other words, if Trident can spend $20 to $30 million and now be making a profit, somebody else can do the same.

MR. SIGALE: That's correct, as the antitrust analysis goes. Now, that's not the way that a marketing person or the president of a company is going to look at it. The question is somebody else going to make that investment?

THE COURT: Do we know — I am not sure it's in the record — whether ink designed for Trident's printheads works with other printheads like those of Markem and Xarr?

MR. SIGALE: I would concede that it is in the record, and it does not. The printhead ink is a system which leads me to question whether or not there are two separate products or not. It was not raised in the original moving papers on summary judgment presented by Independent Ink as to whether or not they are separate products under the case law, so we didn't [Tr. 30] address it here.

THE COURT: Anything else?

MR. SIGALE: Unless you would like me to address the Hyde comments.

THE COURT: If you wish.

MR. SIGALE: Why would you open the door to considering legislation like this because your constituents are asking you for legislation that specifically says this is what the law is. Much like the statute in the case you heard earlier this morning, it would be nice to have some certainty so you don't have to litigate for three years through six amended complaints. This is the statute, point to the statute, and get out on a Rule 12(c) motion for judgment on the pleadings.

I think corporate America would really like that rather than having to go through the expense of litigation, get to the

summary judgment stage, and then have to show this is where we are at.

THE COURT: What you are saying is that even Congress with all of its arrogance can acknowledge that sometimes it hasn't been terribly clear, and it might be better to be clearer.

MR. SIGALE: I think that's exactly what's going on here. In fact, it was recently raised yet again before the House Judiciary Committee whether or not they needed to amend [Tr. 31] the statute, and — I wish I had the comments here — but the gist of it was we had hoped that the Courts would provide some clarity and perhaps the Federal Circuit would do so. Unfortunately, in the past ten-plus years, that hasn't happened, and so maybe we will have to step in or maybe we won't. Ultimately, they never reached a conclusion on whether they would step in or not.

THE COURT: Thank you very much.

MR. O'CONNOR: May I respond?

THE COURT: Yes, you may.

MR. O'CONNOR: First of all, I would like to make a disclaimer that I do not think Henry Hyde is necessarily the greatest lawyer on the planet. However, I think this time he may have gotten it right because he probably had some good help from his staff.

If you look at the second page of his remarks —

THE COURT: I don't think I have them actually, but go ahead.

MR. O'CONNOR: He says, "The basic problem stems from Supreme Court and lower Federal Court decisions that construe patents and copyrights as automatically giving the intellectual property owner market power, and he cites to Jefferson Parish, United States versus Lowes, and Digitine versus Data General Corporation.

I was looking at Jefferson Parish and not the [Tr. 32] concurring remarks by Justice O'Connor but the remarks by the majority, and I think they have stated it about as clearly as they can, and I might add that they cited International Salt, United States Steel, and Lowes, and I don't know if they cited White Motor Company or not, but they all say the same thing.

What they said was that "If the government has granted the seller a patent or similar monopoly over a product" — it doesn't say anything about something in a market — "a product, it is fair to presume that the inability to buy the product elsewhere" — let me just stop with that.

You heard Mr. Sigale saying, well, they could have bought similar products, Markem or Xarr and the other — they could have bought similar — but they couldn't have bought this product, and that's what the patent tying issue is all about. That's what I said earlier, and I was correct. The patent defines a market. It defines a particular product.

If you want that particular product — in this case, the evidence is overwhelming that they did, and in fact, I believe — I am not sure what the paperwork shows exactly, but these other competitors didn't even exist at that time. If you wanted that patent product, you had to buy from them.

If you bought that particular patented product, it goes onto say, "Any effort to enlarge the scope of the patent monoply by using the market power, it" — again, "it" is that patented product — "confers to restrain competition in the [Tr. 33] market for a second product will undermine competition on the markets in that second market. Thus the sale or lease of a patented item on the condition that the buyer will make all his purchases of a separate tied product from the patentee is unlawful."

I don't know how that could be anymore clear. "The sale or lease of a patented item on the condition that the buyer

will make all his purchases of a separate tied product from the patentee is unlawful."

The market in which the patented product competes is totally irrelevant to that analysis and not discussed at all. Since we are both relying on Jefferson Parish, that's the statement In the majority opinion.

THE COURT: Of course, they also say in sum any inquiry into the validity of a tying arrangement must focus on the market or the market in which the two products are sold and —

MR. O'CONNOR: But they say the presumption there is that there is market power in the tying product, vis-a-vis the tying product, and they specifically say it's illegal, and the other cases say the same thing.

THE COURT: And you think that when Justice O'Connor pointed out a common misperception — or misconception has been that a patent suffices to demonstrate market power because a patent holder has no market power in any relevant sense if [Tr. 34] there are close substitutes for the patented product?

MR. O'CONNOR: Right, for the patented product, close substitutes for the patented product. That is the market in which the patented product is competing, and that's where having a patent doesn't confer any market power.

In other words, just because Trident had a patent on its product doesn't mean it had market power vis-a-vis Zarr and these others. That's what she is talking about that, and that's well settled law. We are not arguing with that. That's different from tying products that are used specifically for the patented product.

Just think about it when you asked Mr. Sigale whether or not this ink could be used anyplace else. It can't. Independent makes ink that be used in the Trident system, and if you just stand back —

THE COURT: I assume independent has some other function in life than to have developed an ink for one —

MR. O'CONNOR: It's irrelevant. They are making a particular product that they want to sell. It could be them. It could be 25 other people. They have every legal right to sell that product.

Now because of a contract premised upon a market on a patented product, they can't sell that product. There is a barrier to their ability to sell their product, and that barrier is illegal. There is no way if those contracts are [Tr. 35] honored that Independent can sell to the people who purchased that patented product. That's exactly what that case law is all about.

As far as the Section 2 issue is concerned, it's the same thing. The market again — I thought we made it clear — with which we are concerned is the market for ink in which Independent competes. Independent is blocked from selling its nonpatented product because of Trident's illegal tying agreements that use the market power of their patent to prevent people from selling ink to be used in that patented product.

Any analysis to the contrary overturn — forget Jefferson Parish. International Salt makes that very clear. I can tell you as a patent lawyer that patent lawyers walk in constant fear and advise their clients do not do anything which in any way involves tying the sales of anything nonpatented to sell the patented product. That's the third rail of patent lawyer, and these people have expressly violated it.

THE COURT: Anything further, Mr. Sigale?

MR. SIGALE: Quickly, Your Honor. I don't want to turn this into a tennis match.

With respect to Jefferson Parish, looking at the language talking about that it's fair to presume that a patent creates market power, initially, Justice Stevens cites to United States

versus Lowes, a copyright case. It continues on to cite United States versus Paramount Pictures, another [Tr. 36] copyright case; then International Salt, a misuse case that also dealt with the Sherman Act 2 and sent it to remand; and then International Business Machines, a misuse case.

Essentially what Mr. O'Connor has pointed to is at best a blind reliance on International Salt, and I believe if you look at Fortner I and Fortner II it calls International Salt into question, but moreover, as we point out in our reply brief, in 1965, the Supreme Court visited directly the issue of whether or not a patent provides market power in the context of a Section 2 case. That's Walker Process, Your Honor, and they held that you have to go through the regular analysis.

Now, perhaps what we are looking at is a swing in the pendulum in hostility towards patents. In International Salt, which was decided almost 30 years before Walker Process, there was a bigger hostility. In fact, International Salt has no reasoning whatsoever. It relies solely upon the prior misuse cases, misuse, the defense, not cases that said it was an antitrust violation and springs upon everyone that all of a sudden there may be some kind of Section 1 violation, but it was not based on any kind of analysis of patents and how unique patents were. I think the test is uniqueness.

As the Ninth Circuit has pointed out, Mercedes Benz automobiles are not unique. You have to take look at them in the context of what other kinds of automobiles you could buy for that kind of market. I guess you would have to look at BMW [Tr. 37] and Audi and whatever else people look at that are considering buying a Mercedes Benz.

That's exactly what we are saying here in Trident's case. You have to look at what other people may buy. They may buy something other than the Trident system, but if they buy into the Trident system, ceratinly the OEM's who are very sophisticated know what they are getting themselves into, and that's what this OEM agreement is about.

THE COURT: I think Mr. O'Connor would say he is really not concerned about the OEM's. He is concerned about the ink producers, and that's why his argument is that the relevant product market is not those products that compete with the printhead system, but it is the Trident printhead system. That's the product market.

MR. SIGALE: Doesn't that shift the focus then to competitors rather than competition? The antitrust laws are about competition, not about competitors, so if we are going to look at this competitor or that competitor, we are shifting the field from what the antitrust laws were designed to protect. Competition is something else.

When you look at it in that crucible, you say we have to look at competition, not competitors, then you come back to the test in Jefferson Parish, and you say where is the power in the tying product market, and what's going in the tied market?

THE COURT: Wouldn't Mr. O'Connor respond — and, Mr.

* * *

AFFIDAVIT OF SERVICE

United States Court of Appeals
for the Federal Circuit
No. 04-1196

----------)
INDEPENDENT INK, INC.,
Plaintiff-Appellant,

vs.

ILLINOIS TOOL WORKS, INC., and
TRIDENT, INC.,
Defendants-Appellees.
----------)

I, John C. Kruesi, Jr., being duly sworn according to law and being over the age of 18, upon my oath depose and say that:

I am retained by LEVIN & O'CONNOR, Attorneys for Appellant.

That on the 2nd day of September 2004, I served 2 copies the within Replacement Joint Appendix in the above captioned matter upon:

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Unless otherwise noted, 12 copies of each have been hand delivered to the court on the same date as above.

September 2, 2004 */S/ JOHN C. KRUESI, JR.*

Supreme Court, U.S.
FILED
AUG 4 - 2005
OFFICE OF THE CLERK

No. 04-1329

In the Supreme Court of the United States

OCTOBER TERM, 2005

ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.,

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

On a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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JOINT APPENDIX

VOLUME 3 OF 3

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PETITION FOR CERTIORARI FILED APRIL 4, 2005
CERTIORARI GRANTED JUNE 20, 2005

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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

INDEPENDENT INK, INC., a California corporation	) Case No. CV98-6686 NM (CWx)
Plaintiff	) **DECLARATION OF EDWARD F. O'CONNOR IN SUPPORT OF INDEPENDENT'S BRIEF PURSUANT TO THE COURT'S AMENDED MINUTE ORDER OF FEBRUARY 1, 2002**
vs.	)
ILLINOIS TOOL WORKS, INC., a Delaware corporation and TRIDENT, INC., a Connecticut corporation; and Does 1 through 50,	) Date:) Time:) Courtroom: 11
DEFENDANTS.	) Hon. Nora M. Manella

CONTAINS CONFIDENTIAL-INFORMATION SUBJECT TO PROTECTIVE ORDER TO BE FILED UNDER SEAL NOT TO BE OPENED NOR THE CONTENTS REVEALED EXCEPT (1) TO THE COURT AND THEN RESEALED (2) BY AGREEMENT OF THE PARTIES, OR (3) BY PRIOR ORDER OF THIS COURT

I, Edward F. O'Connor, declare as follows:

1. I have personal knowledge of the facts set forth in this declaration and if called upon can and will testify to them in a court of law.

2. I am an attorney at law and an attorney of record for the Plaintiff and Counterdefendant, Independent Ink, Inc. in this case.

3. Attached hereto are true and correct copies of the following exhibits:

A. Deposition Testimony:

Ex. 1, Trident/ITW 5/10/2001, 30(b)(6) deposition testimony of Mr. Dennis Sibley, p. 255, l. 7-p. 256, l. 18.

Ex. 2, Elaine Pullen, 8/23/2000, p. 150, l. 20-152, l. 21.

Ex. 3, Elaine Pullen, 8/23/2000, p. 267.

Ex. 7, Elaine Pullen, 5/1,0/2000, pp. 318-319 and 333-334.

Ex. 28, Thomas Barnett, 7/31/2000, p. 10, l. 2-p. 12, l. 2; p. 13, l. 17-p. 14, l. 8; p. 25, ll. 2-19; p. 26, ll. 13-18.

Ex. 29, Elaine Pullen, 8/23/2000, p. 227, l. 18-p. 228, l. 18; p. 229, l. 6-p. 230, l. 6.

Ex. 38, Elaine Pullen, 5/10/2000, p. 353, ll. 5-7.

Ex. 39, Trident/ITW 5/10/2001, 30(b) (6) deposition testimony of Mr. Steve Liker, p. 26, ll. 13-25; p. 60, ll. 17-20.

Ex. 40, Trident/ITW 5/9/2001, 30(b) (6) deposition testimony of A1 Stanco, p. 67.

Ex. 41, Dareen L. Cannizzaro 4/2/2001, p. 149, ll. 6-20.

B. Documents Produced by Trident/ITW:

Exs. 4-18; 21-27; 31-37; and 44-52. (Handwritten percentages on Exs. 5 & 6 were placed there by me and were a result of my computations.)

C. Declaration of Thomas G. Barnett:

Ex. 20.

D. Letter from Mohawk to ITW obtained by Independent and maintained in its business records in the normal course of its business.

Ex. 26.

E. Tree Top letter obtained by Independent and maintained in its business records in the normal course of its business.

Ex. 30.

F. Declaration of Ranganathan N.K.

Ex. 43.

G. Excerpts from Areeda:

Vol. IX pgs. 7, 8, and 10.

Vol. IIIA, Second Edition, p. 372.

Vol. X pgs. 45 and 47.

The yellow highlighting on the exhibits was done by me.

I declare under penalty of perjury under the laws of the State of California that the above statements are true and correct.

Executed this 11th day of February, 2002, at Newport Beach, California.

/S/ EDWARD F. CONNOR
Edward F. Connor

Exhibit 3

CONFIDENTIAL TRANSCRIPT
IN THE UNITED STATES DISTRICT COURT

FOR THE CENTRAL DISTRICT OF CALIFORNIA

INDEPENDENT INK, INC., a California corporation	)	
Plaintiff,	)	
vs.	)	No. CV98-6686 NM (CWx)
TRIDENT, INC., believed to be a Connecticut corporation; and Does 1-50, inclusive,	)	CERTIFIED COPY
DEFENDANTS.	)	

DEPOSITION OF ELAINE PULLEN

Newport Beach, California
Wednesday, August 23, 2000

Volume 2

CONFIDENTIAL TRANSCRIPT

* * *

[Tr. 267] Q Okay. Do you have any idea what percentage of piezo ink jet engines were provided by Marsh at that time — I'm sorry — by Trident at that time?

A Well, what's the time? This is —

Q 1997.

A Well, the report is written in '97. I'm not sure it would be on '97 data, so it goes back to '96 where we would have had over 90 percent of them for industrial printing I'd expect.

Q Okay. Is Imaging Technology just another name for ITI or is that a different company?

A There is another one, so I'd have to look at it.

Q If it's the same one? If you'd take a look at 31825.

A Yes, this one is the same one, ITI.

Q Are you familiar with that record — I mean that letter?

A Okay.

Q Are you familiar with that letter?

A Yes.

Q Okay. Would you take a look at the second paragraph where it says, second sentence, "Third-party suppliers are selling inks to end users as low as $119 per bottle in single quantities."

* * *

Exhibit 5

Cascading - High Res
Estimated Market #

High Res
Case Coding Market
World Wide
Jun-00

System Sales *

	Units	Revenues	ASP
North America	1,660	$ 24,900,000	$ 15,000
Euro	500	$ 7,500,000	$ 15,000
Asia	211	$ 3,165,000	$ 15,000
Sub Total	2,371	$ 35,565,000	
Markem / Weber Share 10%		$ 3,556,500	

Ink Sales

Trident Liters	65,500	
Street ASP	$280	
Trident Market	$ 18,340,000	— 90% of Trident + Pirate Mkt
Markem Ink Est.	$ 2,000,000	83% of total mkt
Ink Pirates Est.	$ 2,000,000	
Sub Total	$ 22,340,000	

Total World Revenue

Systems	$ 35,565,000
Inks	$ 22,340,000
Total	$ 57,905,000

Reference

Marconi	$ 25,000,000	43%
Markem / Weber Share	$ 5,556,500	10%

Trident Printhead Units Sales FY 1999

	Units	
North America	5,539	68%
Euro	1,713	21%
Asia	925	11%
Sub Total	8,177	

* Includes spares/misc
Trident Printhead ASP - $1,345 FY 1999
Note: Markem Share includes Weber sales at less than 1%

ATTORNEYS EYES ONLY

Exhibit 6

HI RES CASE CODING MARKET
WORLD WIDE FY 2001

SYSTEM SALES:

	Systems	Percent of Market
Trident Based	2,075	85%
Markem Based	300	12%
XAAR / MIT Based	67	3%
Total Systems	2,442	3% Growth
		$36.6 million

PRINTHEAD UNIT SALES:

	Systems	Upgrades/ Retro/Spares	Total CC
Trident	4,150 - 81%	2,915	7,065 - 86%
Markem	660	35	695
Xaar / MIT / HR 120	268	22	290
Total Printheads	5,078	2,972	8,050

INK UNIT SALES:

	Liters	Avg. Sell Price	Total CC
Trident Ink	71,000 liters	$280.00 ASP	$19,880 — 85%
Non Trident	14,000 liters	$240.00 ASP	$ 3,360
Total Inks	85,000 liters		$23,240

83.5%

including Markem + Xaar inks

TOTAL HIRES MARKET:

Systems	$36.630 m
Inks	$23,240 m
Misc. / Supplies	$ 1,500 m
Total Market	$61,370 m

ATTORNEYS EYES ONLY

Exhibit 7

UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA
(Western Division)

INDEPENDENT INK, INC., a California corporation Plaintiff, vs. ILLINOIS TOOL WORKS, INC., a Delaware corporation; TRIDENT, INC., a Connecticut corporation; and Does 1 through 50, DEFENDANTS.	)	No. CV98-6686 NM (CWx) **CERTIFIED COPY**

30(b)(6) DEPOSITION OF TRIDENT/ITW

Newport Beach, California
Thursday, May 10, 2001

Volume 2

CONFIDENTIAL TRANSCRIPT

* * *

[Tr. 308] having been first duly sworn, was examined and testified as follows:

THE WITNESS: I do.

EXAMINATION

BY MR. O'CONNOR:

Q State your name, please.

A My name is Elaine Pullen.

Q Ms. Pullen, I've taken your deposition before, so I'm not going to go through all of the preliminaries.

Would you please take a look at Exhibit 15297 entitled "Strategic Business Plan 1999."

MR. SIGALE: Mr. O'Connor, you said the box was in order but I'm looking at the document that immediately follows the assessment of the opportunity of ink market and that's not the next document I have.

MR. O'CONNOR: Are you unable to locate that document?

MR. SIGALE: Can you tell me what the cover is.

MR. O'CONNOR: It should be right in there.

MR. SIGALE: Actually, it was right in front of me.

MR. O'CONNOR: This may seem tedious, but we're

* * *

[Tr. 318] typically carton coding would be the case coding.

Q When you say "secondary," you're talking about the large carton in which the smaller cartons are placed?

A Correct.

Q For shipping, things like that?

A Yeah.

Q Can you tell me which line corresponds to carton coding on this graph.

A Well, it's — it would be easier in color, but I think the way that Excel spreadsheets usually do this is it would go from the bottom upwards; so the left-to-right boxes would correspond to the bottom-to-top boxes.

Q So the carton coding is just under —- like about the 35,000; is that right?

A It's actually impossible to tell from this because the bottom two come out the same.

Q Okay. All right. Do you have color copies in-house that would be easier to read?

A Either that or with some kind of different shades, I'm sure we did originally.

Q Okay. Could you turn to 005354, please. And this is market share analysis total market. And 6/21/99, does that mean that that was the market as of [Tr. 319] 6/21/99 — does that mean that's when this was done?

A I expect so, yes.

Q And where did the data come from for this chart?

A The Trident information obviously we have up until that date going forward is our forecast. Everything else would have been our estimate, internal estimate.

Q Okay. But what information would you use to make that estimate?

A We use a variety of sources. We would use discussions that we've had with customers, even competitors, anything published to the extent that it's helpful, and — but there are no published numbers for each of these companies individually, that I'm aware of.

Q Okay. Well, let's take, for example, Czar. If you look down there, it shows zero in '95, zero in '96, zero in '97, zero in '98, 40 in '99. Would that indicate 40 units total?

A Printheads.

Q Printheads. Total printheads?

A Correct.

Q And it would be more than one printhead in a machine; is that right?

* * *

[Tr. 333] our OEMs if they come across competitive products to provide us with information, because that's the only way we can get information about what is happening at end user sites.

Q Did you ever indicate to any of your customers, particularly Marsh, that you believed that Graphic Control's ink might cause corrosion to printheads?

A I believe Marsh notified us that they were having problems at sites which were using Graphic Control's ink.

Q Did Marsh provide you with printheads which they felt were so damaged?

A I don't know.

Q Okay. Could you take a look at, if you can find it, 298 — ITW 2983.

If you don't, you can look at that one, then. That's it.

MR. SIGALE: Is there a question pending?

BY MR. O'CONNOR:

Q Yes. Do you recognize that document?

A Okay. Yes, I do.

Q Do you know, can you tell me what that document is.

A It looks like it's an estimate of inkjet products used within the case coding market.

[Tr. 334] Q Do you know who prepared it?

A I believe this was Brian Mahar.

Q Who is he?

A Brian Mahar is head of the case coding marketing group. Or it may have been prepared by people who work for him in marketing.

Q Is he the present head of that group?

A Yes, he is.

Q How long has he had that position?

A Approximately two years.

Q Do you know where he obtained the information that went into that report?

A Again, he would have used a variety of sources of asking our OEM customers or using any published information and our estimates that we believe may or may not be true.

Q Well, if you believe that they could just as easily be true as not true, would he have relied on such information?

MR. SIGALE: Objection; assumes facts not in evidence.

MR. O'CONNOR: I'm asking for facts.

THE WITNESS: The — I think you can't actually rely on information exactly, no, because it is speculative.

Exhibit 8

TRIDENT, INC.

Presentation to the
Board of Directors

October 25, 1995

Brean Murray, Foster Securities Inc.
633 Third Avenue, 11th Floor
New York, NY 10017
(212) 476-0700

MARKET POSITIONING OF TRIDENT

Company's Positioning

- *Trident is significant beneficiary of growth in industrial printing and marking*

  On-demand printing of carton and boxes is Trident's largest market segment, representing almost two-thirds of its sales. New printheads and inks under development will allow Trident to exploit product marking opportunity.

- *Trident is the leader in piezo-electric ink jet*

  Trident is the technology leader in an increasingly important segment of the overall ink jet market, with a dominant market share and a broad patent portfolio. The value-added component of Trident's technology generates a high gross margin (>60%).

- *Piezo has advantages relative to other ink jet technologies*

  Piezo utilizes an extremely simple mechanism, with virtually no moving parts. This makes it a less expensive, more durable, and flexible device, and thus suitable for industrial applications.

- *As OEM supplier, Trident has extremely efficient marketing and administrative operation*

Lean overhead structure allows for low operating expense ratio, producing an EBITDA margin in excess of 40%.

- *The Company derives substantial portion of its revenues from sale of consumables.*

Trident's marketing focus is on customers with heavy ink usage. This generates an annuity from the sale of inks, which accounts for approximately one-third of total sales.

- *Management has significant experience in ink jet field*

Hugh Van Brimer holds 14 patents in ink jet field and related technologies. Elaine Pullen has held senior marketing and technical positions at several ink jet companies prior to joining Trident.

Exhibit 9

Cowen

P.2

William L. Potter (212) 337-2234
Patrick J. Parr (212) 337-2319
Alex. Brown

June 3, 1997

TRIDENT INTERNATIONAL, INC./NASDAQ (TRDT):
Demand Strong But Selling Cycle Extended; Slight Reduction in F1997E EPS -- "Strong Buy"

Price 6/3	52-Wk Price Range	EPS (FY: Sep.) 1996A*	1997E	1998E	Cal. Yr. P/E 1997E	1998E	Indicated Div.	Yld.
30 1/2	18-35	$0.84	$1.10	$1.40	17.7x	13.9x	$0.00	Nil

FY Sep.:	1996*	1997E	1998E	C1996*	C1997	C1998
1Q	$0.18	$0.26A	$0.30	$0.20	$0.27	$0.3
2Q	0.20	0.27A	0.33	0.22	0.28	0.3
3Q	0.22	0.30	0.37	0.24	0.31	0.4
4Q	0.24	0.31	0.40	0.24	0.30	0.3
Fiscal Year	$0.84	$1.10	$1.40	$0.90	$1.16	$1.47

* *Pro forma for the IPO of 3.5 million shares on 3/27/96*

INVESTMENT HIGHLIGHTS

- Based on conversations with Trident management and with a sampling of its OEM customers, we are reducing our our F1997 estimate from $1.13 to $1.10, and our CY 1997E EPS from $1.18 to $1.16. In doing so, we are now in line with consensus estimates.

- The reason for the slight revision is that we believe the selling cycle for Trident's OEM customers is increasing as more OEMs are effectively competing for some of the same business. The implication is that OEMs might experiance some delays in expected orders over the next two quarters as customers choose between multiple Trident-based proposals; nonetheless, overall demand remains strong.

- Our FY 1998E and our CY1998E EPS are unchanged at $1.40 and $1.47 respectively. We are encouraged by increasing participation by OEMs. Trident is gaining share with OEMs and end users, which supports our thesis.

- Trident is rated "strong buy" with a twelve month price target of $35 reflecting a 24x multiple on CY 1998E EPS of $1.47.

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EX. 9

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comparison to label printers. Trident is benefiting from a replacement cycle from labels to direct carton coding.

4) A Proprietary Solution -- Only Trident supplies the (patented) ink jet sub systems that provide the high resolution for readability of barcodes required by Walmart and other retailers. As two VARs put it, "Trident is the only game in town for both ink jets and ink."

5) Growing Razor Blade Sales -- Ink sales were 33% of total revenues in F3Q:97, up 49% year-over-year. Trident's newest products consume more ink than the older products. And Trident is the sole source for the proprietary inks that are compatible with their ink jets.

VALUATION/CONCLUSION

We rate Trident shares "strong buy" with a 28% long term growth rate and a 12 month price target of $35 reflecting a 24x multiple on CY 1998E EPS of $1.47.

Additional Information Available Upon Request

Alex. Brown & Sons, Incorporated maintains a net primary market in the common stock of Trident International.
Alex. Brown was an underwriter for the February 1996 offering of 3.5 million shares of common stock of Trident International.

Exhibit 10

Strategic Business Plan

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Trident continues to be the world leader in the supply of piezo impulse ink jet printheads and inks for industrial marking applications. Sales in FY 1997 will be approximately $30.2M, which represents a 17% increase over FY 1996. Earnings per share will be approximately $1.04, or an increase of 22%.

FY 1997 is characterized by printhead and ink revenues leveling off in all major market segments. The early part of the year was adversely affected by the transition in the carton coding segment to the Ultrajet 256/32. The latter part of the year has been adversely affected by a longer selling cycle to the end-user and by discounts to major OEM's on printheads and inks. Underlying these issues, however, is maturation of the Ultrajet product in existing, porous media applications and increasing frustration and rejection by OEM's and end users of the technological weaknesses of the product.

New product development which incorporates fundamental and radical improvements is the key to rejuvenating the growth in sales. Secondly, creating a strong brand image with end users will help to preserve loyalty to Trident printheads and inks and cause a pull-through demand. We must no longer regard our OEM as our customer, but rather as a distribution partner to reach the end-user. Thirdly, we must exploit new markets. These include non-porous applications, which can be addressed predominately through existing distribution channels, and wide format printing, which will be addressed by the creation of a development team to develop roll to roll and flat bed systems. Product costs will be reduced to allow penetration of a wider portion of the market. However, there is no evidence at present that other industrial piezo printheads can be produced at less cost than Trident's with comparable performance.

No credible printhead competition emerged in FY 1997. An ink "pirate", Graphic Controls, did emerge strongly and

they are expected to have an effect on ink revenue in FY 1998 onwards unless Trident is willing to take a firmer legal position to defend license agreements and patents.

This plan requires a 49% CAGR to achieve sales of $100M by fiscal year 2000. Acquisition will be necessary to achieve this goal.

* * *

Exhibit 11

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Trident International, Inc.
1998 Marketing Plan

TRIDENT
INTERNATIONAL, INC.

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Trident International
1998 Marketing Plan

1.1 Market Overview

The industrial ink jet printing market is large and growing. Including sales of CIJ, valve jet and impulse jet systems and consumables, global sales were $1.06 billion during 1996. Sales are projected to grow to $1.65 billion in the year 2001 (Source: GIGA). Carton coding is expected to be the dominant growth driver.

Trident dominates the impulse ink jet printhead market and plans to grow aggressively through the year 2000 and beyond.

Trident Sales by Geographic Area ($ million)

	1996	1997	1998	1999	2000	2001
Total	25.9	30.1	36.6	51.0	64.5	73.7
North America	18.0	21.7	24.0	36.1	47.6	54.1
Europe	6.0	5.8	9.3	10.4	11.9	14.1
Far East	1.9	2.5	3.3	4.5	5.0	5.5

Sales of Trident Ink Jet Systems and Consumables ($ million)

	1996	1997	1998	1999	2000	2001
Total	25.9	30.1	36.6	51.0	64.4	73.7
Imaging Subsystems	15.8	17.7	21.2	33.9	47.0	55.4
Consumables	8.2	10.9	14.0	15.7	16.8	17.6
Other	1.9	1.5	1.4	1.3	0.6	0.7

Challenges for Trident
Trident faces several major challenges including the emergence of less expensive inks and less expensive impulse ink jet print heads.

In order to achieve growth objectives, Trident must capitalize on all of its strengths, continue leading edge product development and broaden its business to new markets and new applications.

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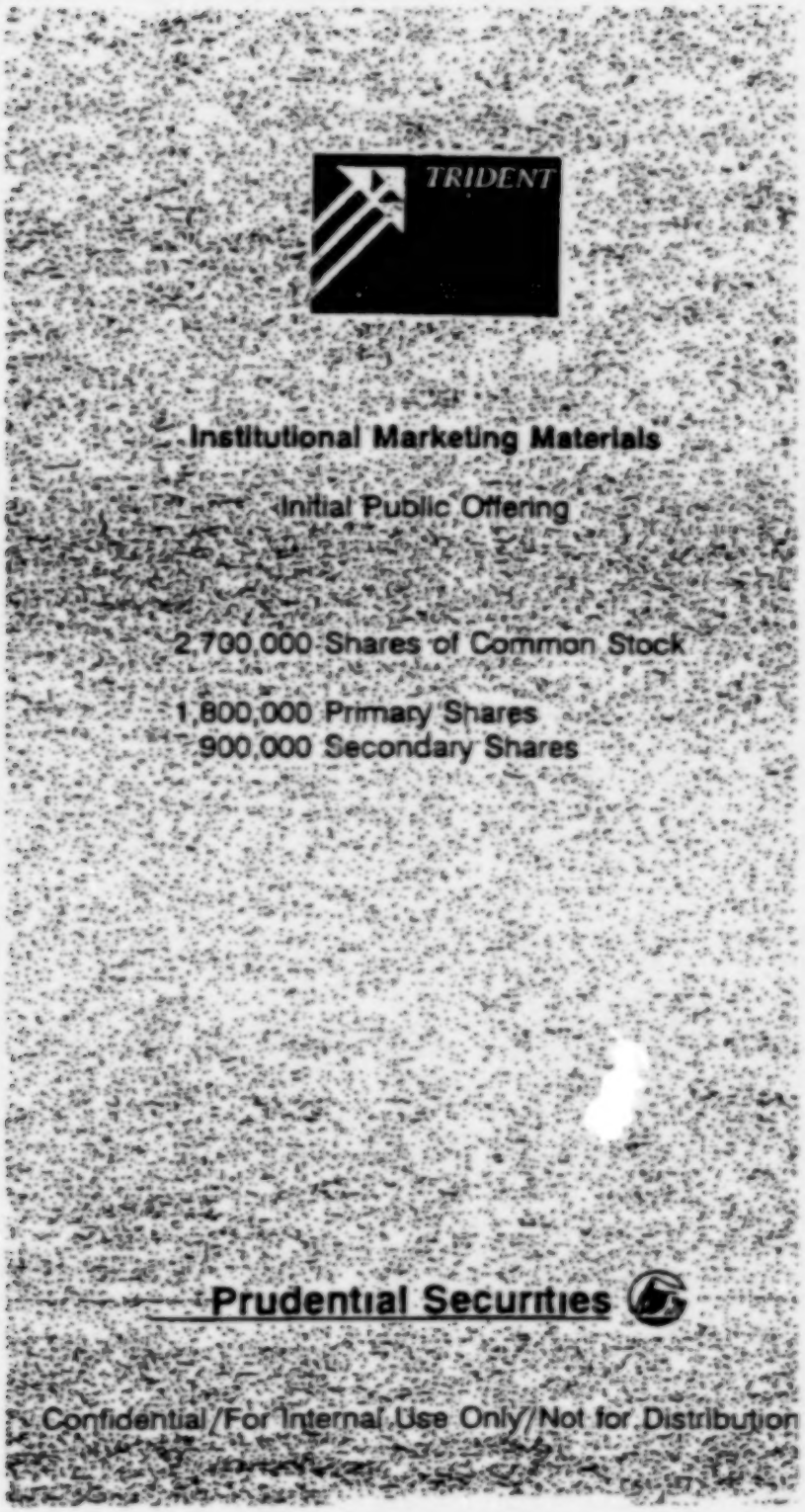
ATTORNEY'S

Exhibit 12


TRIDENT
Institutional Marketing Materials
Initial Public Offering
2,700,000 Shares of Common Stock
1,800,000 Primary Shares
900,000 Secondary Shares
Prudential Securities
Confidential/For Internal Use Only/Not for Distribution

Trident International, Inc.

Institutional Marketing Materials

I. Preliminary Prospectus, dated February 1, 1996

II. Marketing Memorandum

III. Preliminary Roadshow Presentation

IV. Company Roadshow Presentation

V. Comparable Companies

VI. Institutional Holdings of Comparable Companies

* * *

Section IV

Investment Highlights

- Dominant market position focused on industrial applications
- Proprietary technology protected by over 40 patents
- Increased adoption of automated identification systems
- Projected market growth of 40% plus in target carton coding niche
- 37% historical operating margins
- Substantial growth opportunities from new products and markets

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Exhibit 14

FEBRUARY 13, 1997

MONTHLY MANAGEMENT REPORT FOR JANUARY 1997

cc:
J. Caffin
D. Connor
R. Cutting
R. Donofrio
J. Leo Gaone
D. Hicks
D. Hurdy
M. Laverty
R. Rogers
C. Schlesinger
A. Stanco
R.H. Van Brunt
S. Yuhr

CIRCULATE & RETURN TO MC

ART 1	ART 2	ART 3
Dr. Sarada	W. Peggie	D. Velay
D. Pendelly	D. Kontsmanns	S. Lage
H. Duong		B. Salzing

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TRID 024038

TRIDENT, INC.

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- There is a competitive feeling in the marketplace relating to Trident's product. This feeling relates around our customer's ability to produce the best possible product to meet customer's needs. Since there are new choices for Trident's technology the end users are shaking the branches to see which products best meets their needs. This is forcing our customers to take a close look at their offerings and address product improvements that are required to be successful. During 1997, Trident should see vast improvements relating to user's friendliness and product functionality. Additionally, the Trident product line, with many of our customers' are no longer a side business but rather a major source of revenues for their company. If this business was ever taken away, these customers would severely suffer. The impact that Trident can dictate on individual customers and/or this market is extremely massive. We are in the driver's seat, at this time. The big question is will the market grow fast enough to allow ourselves to maintain this dominance or will players start dropping off.

- Marsh has taken up things in their organization. They know that the Trident product must be improved in order that they continue their dominance. There is a "no excuse" attitude throughout Marsh.

- BancTec is still going strong. Trident has the opportunity to solidify the Business with BancTec for many years. The management meeting scheduled for March is extremely important in improving the relationship with BancTec. Trident must provide the products that we say we can provide and must be willing to assemble the right resources to help BancTec succeed with our product. We are at a major crossroad with BancTec.

- FoxJet is still going through major growing pains. Trident does not know if FoxJet has the right resources in place to move this small dynamic company into a financially strong mid-size organization. FoxJet claims to be close on two private label deals including Dominio and Lovelaw.

- An agreement with NCR seems today to be closer to reality than it ever has been since the relationship was started. Solidifying the new product pre-production run and allowing NCR to purchase ink directly from Trident has provided the leverage needed to bring this S&L closer to reality.

- Business has started to see improvements in the market. It is unknown if the end user did a "wait and see" attitude knowing that Videojet's 2001 system was being launched or waiting for the AllWrite problems to be corrected or if the market is starting to rebound.

- Videojet has reforecasted their needs for the next 12 months. They have decreased their demands for the 256. This is partly due to the print head purchasing for all of Europe to fall under Cueprint. Orginally, the 256 was to be purchased out of Elkhorn for Europe with the exception of the UK. This has now been changed. Cueprint will purchase the 256 for Europe. This is reflected in their new forecast. Revenue from Videojet during the next 12 months is forecasted at $1.9 million while the forecast for CuePrint is at $2.5 million. There is only a difference of 20 print heads between Elkhorn and Cueprint. Projected ink revenues are as follows: Wood Dale – $174,314, Cueprint – $1,152,540.

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Exhibit 15

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Technology Barriers to Entry

Barriers to entry of a competitor into Trident's markets are considerable. Our technology required an initial investment of approximately $20m and at least $10m of on-going R&D and process development. This work resulted in an extensive portfolio of patents and confidential knowhow. All of the impulse ink jet printheads on the market today required similar or higher investments.

The piston type transducer opposite an orifice is a fundamental patent. The advantage of this configuration is that it can provide large volume displacements and high frequency drop generation. It also separates the ink from the piezo material. The draw-back is that channel density is relatively low, although with a similar geometry, Epson has successfully miniaturized the components. Reducing the size also reduces the performance. Additional knowhow and patents relate to static and dynamic flow through the manifold, restrictor and chamber to optimize throughput and pressure oscillations and to minimize crosstalk.

The multi-orifice patent is also fundamental and it enables taller images and higher throughput. Knowhow relates to orifice profiles and spacing limitations, surface finish and manufacturing techniques and qualified suppliers.

The drive waveform is proprietary. A patent on sub-pulsing is important to allow non-porous inks to be jetted. This patent describes the application of a sub-ejection level voltage to the piezo crystal high enough to move the meniscus but low enough not to eject a drop. This stops a film from forming over the orifice.

Variable grey levels using multiple drops that merge in flight or at the same point on the substrate is patented. This will be an important patent for Wide Area printing, but we do not use it today..

Trident possesses a considerable amount of knowhow in the processes used to build a printhead, including chamber plate to orifice plate bonding, attaching and then potting the pistons onto the piezo crystal, preparing the surfaces to wet/not wet as required and various methods of testing.

Ink the ink area, in addition to patents which provide some protection to all of the main inks, the optimization of the ink to the printhead requires intimate knowledge of the printhead operation and performance limits. Chemistries primarily include die and resin technology. Trident employs a staff of ink chemists and works with outside developers. All of the formulations used today are owned by Trident and Trident is capable of their manufacture if required. Development work with a number of outside ink manufacturers is only performed after they agree only to supply the ink the Trident, not to competitors or end users.

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Exhibit 16

JUL 08 '97 08:42 FR B ALEX HENDERSON 12127788554 TO 912037759660 P.01/02

TRDT: F3Q EPS SHOULD BE ROUGHLY IN-LINE--BUY TRDT FOR A POTENTIAL 67% RETURN
TRDT: FROM CURRENT LEVELS

Subject: Trident (TRDT--17 1/4)--OTC
MISC TECH
EPS

July 8, 1997
OPINION

Analysts: Alex Henderson (212) 778-1527
John McPeake (212) 778-8304
Allen Randolph (212) 778-1373

Current: Buy
Prior:
RISK: High

Ind. Div.: -- Yield: -- Shares: 7.3 52-Wk.Range: 25-15

EPS	FY	Year	P/E	1Q	2Q	3Q	4Q
Actual	9/96	$ 0.84		$ 0.19	$ 0.20	$ 0.22	$ 0.24
Current	9/97	$ 1.10E	15.7X	$ 0.24A	$ 0.27A	$ 0.28E	$ 0.31E
Calendar	12/97	$ 1.16	14.9X				
Current	9/98	$ 1.35E	12.8X	$ 0.30E	$ 0.33E	$ 0.35E	$ 0.37E
Calendar	12/98	$ 1.41	12.2X				

Proforma for initial public offering closed on March 1, 1996.

FISCAL 3Q EPS SHOULD SURGE 27% Y-O-Y ON SOLID PRINTHEAD SALES--NEW PRINTHEAD INTEGRATION AT OEMS IS PROCEEDING WELL--BUY TRDT FOR A POTENTIAL 67% RETURN
Despite some intra-quarter stock price turbulence, we think Trident should report a roughly in-line F3Q of $0.27-$0.28 when they likely report their results on July 21st. The First Call EPS estimate "band" currently consists of three $0.28 estimates. The $7, 29%, mid-May to early June price decline to around the current level was primarily caused by a 4% F3Q revenue ($8.4 million to $8.1 million) and 3% EPS ($0.29 to $0.28) estimate reduction from a competitor whose estimates were already too high. We do not believe this price decline was representative of any meaningful fundamental changes at Trident but rather a reduction in an above-management-guidance estimate. During this same mid-May to early July period, the S&P Industrials gained around 8%. Trident's new printheads are out at the OEMs and getting designed into a number of new products. With TRDT now trading at a whopping 43% discount to the S&P Industrials against 1998 estimates, we think this stock now offers an excellent opportunity for investors to garner returns in excess of 60% over the next 12-18 months. Our 12-18 month TRDT price target of $30 in fact still represents a 6% discount to the S&P Industrials' 1998 IBES estimate multiple of 22.6 and a sharp 40%-45% discount to our estimate of the company's 35%-40% long-term EPS growth rate.

We Expect Revenues To Grow 20%-25% Y-O-Y And 5%-7% Sequentially In FQ3. In F3Q we expect sales to grow about 20%-25% y-o-y to around $8.1 to $8.3 million. The year-over-year $1.4-$1.6 million sales increase should primarily be driven by UltraJet Printhead sales, which is the company's core product line. At this time it looks like the high-margin ink sales could be tracking to a $50,000 to $100,000 shortfall to our projection. In 2Q97 ink revenues made up 35% of Trident's revenues. If ink sales do come in short by this rather nominal figure, F3Q's revenues could be just $100,000 shy of our estimate, or around $8.1 million in the quarter. This kind of a shortfall would represent a mere 2% miss to our revenue number and y-o-y growth of 2[illegible]% versus our modeled 24%. This level of quarterly ink sales fluctuation is normal and not something that we believe investors should be concerned with. For the full years 1997 and 1998, we conservatively expect Trident to grow revenues by 22% and 30% respectively.

Growth Should Come From Trident's Patented Piezoelectric Printheads, Which Offer A Huge 10:1 Cost Advantage Over Alternative Technologies. New Markets Are Opening Up. In addition to Trident's core UltraJet carton and mail coding market, where the company has an enormous 10:1 cost advantage over peel-and-apply coding, Trident is entering two new markets with their MicroCoder and PixelJet products. About two dozen OEM development kits for these two products have been ordered. These two products should drive the

Date 7/08	
To Leo Gagne	From Rob Perri
Co./Dept. Trident	Phone # 212-778-4105
Fax # 203-7759660	Fax #
Comments	

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EX. 16

TRID 029721

next legs of Trident's growth story, a near $1 billion MicroCoder printhead opportunity in the continuous ink-jet market, and a similar opportunity from the PixelJet printhead in the carton, mailing, wide-format, and fabric printing markets. According to the company, new products utilizing the MicroCoder and PixelJet are currently under development and we should begin to positively impact results by the F1Q98 timeframe. Additionally, new product opportunities in solid ink should give Trident's OEMs the ability to easily print on a wide variety of non-porous surfaces such as glass, plastic, and metal. Solid ink is a potential $500 million plus market opportunity for Trident and gives our 1998 estimates real upside potential.

Volume Printhead Discounts And A Higher T-O-I Printhead To Ink Ratio Should Result In Flat-To-Slightly Down Gross Margins. Trident gives their largest OEM's slight volume discounts (i.e. mid-single-digit), and ramping sales to these customers should result in average selling prices for printheads that are slightly lower than in the year-ago period. Additionally, the percentage of revenues from ink is likely to be lower in F3Q97 versus F3Q96's 31% figure, and sequentially down from 2Q97's 35% of sales or about $2.7 million. For F3Q97 we are modeling gross margins of 64.0%, which would represent a 20 basis point decrease from F3Q96's 64.2% level. We are conservatively modeling gross margins of right around this enviable level through the end of FY98 via ramping printhead volumes and associated discounts.

Operating Expenses Should Lean Towards Research and Development And Selling And Marketing. We expect overall operating expenses to be up 32.2% in F3Q97 to 24% of sales, versus F3Q96 when operating expenses represented 22.4% of revenues. All but about 7% of the total year-over-year $482,000 increase in operating expenses should be driven by a healthy level of R&D and selling and marketing spending. We expect research and development spending to grow at a faster-than-revenues y-o-y rate of about 44% to 10.1% of sales or $835,000. Most of this spending should go towards advanced liquid and solid ink, and solid ink printhead development. Our estimate of a year-over-year 82% increase in selling and marketing expenses should represent a crusade by Trident to work with and recruit new OEMs to develop new products for their core UltraJet and new MicroCoder and PixelJet printheads. Management's excellent attention to costs should be seen in the conservative level of spending on general and administrative expenses, which we estimate will increase by just $35,000 y-o-y in F3Q.

Competition Not Yet A Threat And Ink Pirates Unimportant. At this point Trident sees a few competitors making product claims but few delivering on their promises. Management indicated that ink pirates have kept a low profile thus far but that they are keeping a close eye on any developments in this area.

Prudential Securities has performed underwriting or other investment banking services for Trident. Prudential Securities, Inc. makes a market in the shares of Trident.

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TRID 029722

Exhibit 17

Prudential Securities

Trident International

Company Report

Rating: BUY
TRDT (22 1/2)—OTC

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May 24, 1996

SMALL TECH CAP TECH

	Earnings Per Share Fiscal Year Ending							
	6/95*	6/96E*	6/97E	P/E 6/97E	Ind Div	Yield	Shares O/S (Mil.)	52-Week Range
New	$0.51	$0.83	$1.04	21.62	—	—	7.3	23-17
Old								

DJIA: $779.00
S&P 400: 608.72

* Pro forma for the initial public offering. Priced as of the close, May 22, 1996.

Buy Trident, The Technology Leader In The Ink Jet Market

- **Impulse Ink Jet Market Growing 40%—Trident Dominates.** Trident is the technology and market leader in the emerging impulse ink jet market, particularly in industrial applications such as carton coding. The company's core ink jet technology provides superior price/performance as well as flexibility and durability compared with other ink jet printing technologies or alternative printing modalities. Trident dominates this niche, and the technologies of Canon and Hewlett-Packard are not applicable to Trident's industrial areas. The speed, flexibility, image quality, and low cost of impulse ink jet is driving the displacement of continuous flow ink jet, valve jet, pressure-sensitive labels, and preprinted cartons, resulting in 35%-50% growth for impulse ink jet over the next 3-5 years.

- **Strong 30%-Plus Sustainable Revenue Growth With Stable 38%-42% Operating Margins.** Since 1991, Trident's revenues have almost tripled to $17.5 million in FY95. We expect a 50% jump in FY96, and while we are conservatively tapering growth to vicinity of 30% in FY97 and FY98, we firmly believe this leaves plenty of upside for positive surprises given the 40% annual growth we expect in the emerging impulse ink jet market. Gross margins of 60%-plus and operating margins in the 38%-42% vicinity depending on the mix of printheads and consumables should remain stable over time. We forecast earnings pro forma for the equity offering to increase from $0.51 per share in FY95 to $0.83 in FY96, a 66% increase. In FY97 and FY98, we expect $1.04 and $1.30, a 25% annual increase, leaving as much as 10%-20% upside annually for positive surprises.

- **Targeting $28 Over 12-18 Months, A 24% Upside.** At 21.6 times FY97 estimates, we consider TRDT to be undervalued. We are setting a target of 26-27 times forward earnings 18 months out. This yields a 12-18-month target of $28, a 24% upside.

Exhibit 18

BOARD OF DIRECTORS MEETING

Trident International, Inc.

Wednesday, April 24, 1996

Tambrands Inc.

White Plains, New York

Trident Board of Directors Members and Observers:
Robert Anderson - Bear Murray Foster Securities
J. Lee Gagne - Trident, Inc.
Russell Greenberg - Chatfield, Dean
David Hundt - Trident, Inc.
Bruce Johnston - TA Associates
Michael K. Lorelli - Tambrands Inc.
Norman L. Norris - WWKM&Norris
Elaine Pullen - Trident, Inc.
R. Hugh Van Brimer - Trident, Inc.
John J. Egan, III Esq. - Goodwin, Procter & Hoar

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ATTORNEY'S EYES ONLY

"CONFIDENTIAL"

[illegible] impulse ink-jet technology [illegible] to become ideally suited for a wide range of industrial [illegible]. The Company's impulse ink-jet system [illegible] a blend of durability, versatility and attractive price/perf[illegible] attributes at numerous print widths. Trident's [illegible] ink-jet printing technology allows end-users to print any combination of high quality text, bar codes, and/or graphics directly onto blank shipping cartons as they move down an assembly or production line. Importantly, printed information can be modified frequently as needed, even carton by carton.

TRIDENT HAS CONSIDERABLE MARKET OPPORTUNITY

Ink-Jet Technology is in Early Stages of Adoption for Carton Coding Applications.
To date, ink-jet printers have penetrated less than 25% of the estimated $1 billion global market for carton coding equipment. Overseas, penetration rates are even lower, as many countries are only now beginning to adopt more stringent coding standards to facilitate automation of product management/distribution systems. We believe Trident's worldwide network of more than 70 OEM customers positions the Company to capitalize on the emerging ink-jet market in the U.S. and abroad. Importantly, the Company's OEM network has already proven to be an effective bridge to international markets, which now account for 30% of Trident's total sales.

We Foresee Continued Penetration of the Carton Coding Market by Ink-Jet Print Systems . . .
In the carton coding arena, ink-jet printers compete principally with thermal transfer labeling systems. It is our belief, however, that ink-jet printing will rapidly displace thermal transfer labeling based on superior price/performance attributes. Ink-jet print systems sold by Trident's OEMs carry initial purchase price points which are comparable to thermal transfer labeling systems. Beyond that, however, variable costs associated with thermal transfer labeling can be as much as ten times greater than those associated with ink-jet printing. Trident has estimated that the typical payback period for a customer converting to its impulse ink-jet technology is less than one year in variable cost savings.

. . . as Impulse Ink-Jet Systems Lead the Way.
According to recent estimates by an independent market research firm, Giga Information Group, worldwide sales of impulse ink-jet products for carton coding applications are expected to expand 40% per year for the next five years to $140 million by 2000. (Market data is based on end-user prices for both hardware and consumables.) This estimated 40% annual growth rate for the impulse ink-jet is more than 3-times that for all ink-jets combined in the same market segment. Giga's estimates reinforce our view that impulse ink-jet systems will not only displace thermal transfer labeling systems in the carton coding arena, but significantly intrude upon competing ink-jet systems as well.

Impulse Ink-Jet Should Continue to Invade Markets Traditionally Dominated by Other Technologies.
Trident derives approximately 30% of its revenue from products utilized for applications other than carton coding. These applications include garment plotting within the textile industry, check coding within the banking industry, and addressing & sort coding within the postal industry. Traditionally, end-users in these markets have relied upon other ink-jet technologies (such as continuous ink-jet) to meet their printing requirements. As Trident continues to enhance the price/performance positioning of its impulse ink-jet technology, however, we look for the Company to post meaningful market share gains in these industries.

New Market Opportunities Enhance Growth Prospects.
In March, Trident acquired a non-exclusive license relating to patented solid ink-jet printing technology for use in a number of industrial marking applications. The license will allow the Company to accelerate the introduction of unit coding systems which are capable of printing on non-porous surfaces such as those of individual parts and packages. Within the next 18 to 24 months, Trident solid ink printheads may be integrated into OEM systems for delivery into a several-hundred-million-dollar per year market.

Growth of Installed Base of Printheads Should Escalate Recurring – High Margin – Revenue Stream.
Trident derives approximately 30% of its total sales from high margin consumables, or specially-formulated ink products. Although certain competitors have recently made claims that their ink products can be utilized with Trident printheads, end-users who elect to use alternative ink products risk violating terms of Trident's downtime warranty coverage. At the same time, use of alternative ink products can lead to inferior print performance and/or permanent damage to printheads. While competing ink products may be less expensive than Trident inks (resold through OEMs) we do not believe the price differential is significant enough to offset the associated risks of use such as negation of warranty coverage and/or interruption of a production line due to printer failure. Therefore, we anticipate that ink sales will be a major profit driver as Trident's installed base of printheads continues to expand.

Exhibit 19

EX. 19

Ap. 542

3rd Annual
Industrial Ink Jet Printing Briefing

February 24-25, 1999
Renaissance Orlando Hotel

CAP▼

North American Market
Size, Growth & Dynamics

Paul Schoessow - Director
Industrial Marking & Printing Service
CAP Ventures, Inc. • 600 Cordwainer Drive • Norwell, MA 02061
Phone 781 871 9000 • Fax 781 871 3861 • http://www.capv.com

ITW 002989

1999 Projected North American High Resolution Ink Jet Carton Coding Market Shares

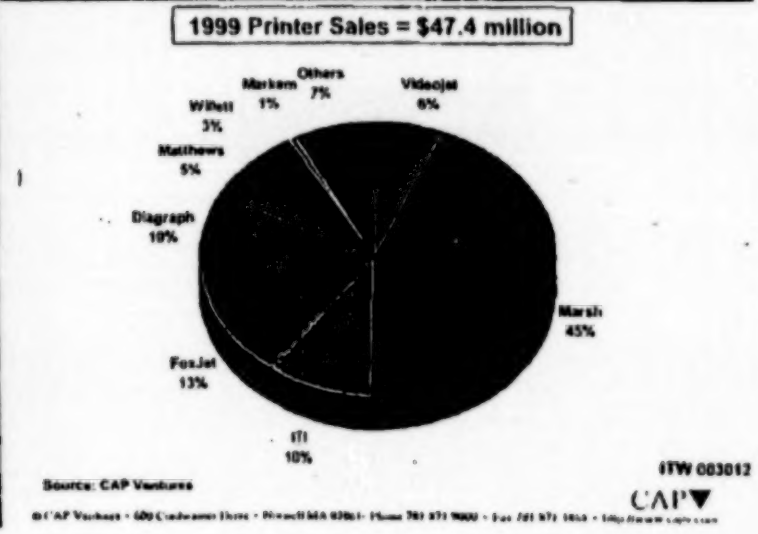

Exhibit 20

Declaration of Thomas G. Barnett

I have personal knowledge of the facts set forth in this declaration and if called upon can and will testify to them in a court of law. The statements below are based on my knowledge of the industry during my tenure as President of Marsh Company,

1) My name is Thomas G. Barnett and I was the President and Chief Operating Officer of Marsh Company (Marsh), which is located in Belleville, Illinois from February 1992 until May 1999.

2) Marsh was the leading manufacturer of ink jet printers for the carton coding market. Marsh manufactures both valve based and Peizo impulse based ink jet systems.

3) Marsh was the largest Original Equipment Manufacturer (OEM) of Trident International, Inc. (Trident) involved in the purchase of "Hi-Resolution" Peizo impulse printheads, ink supply systems, inks and other consumables.

4) Based on my knowledge, Marsh accounted for approximately 40% of Trident's sales to the Hi-Resolution carton coding market.

5) Based on my knowledge, Marsh and other OEMs including Willet, Videojet, Diagraph, Foxjet, ITI, etc. accounted for almost all of Trident's sales of Hi-Resolution Peizo impulse based ink jet systems.

6) Based on my knowledge, there was minimal, if any, competitive products in the Hi-Resolution carton coding market. In my opinion, Trident has enjoyed the enviable position of no real competition in the Hi-Resolution carton coding market.

7) Based on my knowledge of the ink jet industry, Hewlett Packard (HP) does not impose restrictions on re-

filling ink cartridges and there is a large industry built on refilling HP cartridges; thereby, offering consumers with a choice to reduce costs.

/s/ THOMAS G. BARNETT
Thomas G. Barnett
July 13, 2000

Exhibit 21

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Trident Ink License Policy

Objectives

1. Provide an appropriate return on investment considering the proprietary nature of Trident's technology, the ongoing research and development of proprietary products and the risk attendant to such efforts.
2. Maintain Trident's reputation as a supplier of high quality and value-added products to customers and users.
3. Assure compliance with the antitrust laws and laws of patent misuse.

Existing Products

1. The Ultrajet printhead contains materials which are susceptible to corrosion and chemical attack by incompatable inks leading to reduced printhead performance and/or printhead failure.
2. The Ultrajet printhead and compatible inks are strongly interdependent and their cooperation as elements of a total system are necessary to achieve published and patented performance specifications.
3. The Trident license patent portfolio includes patents covering the Ultrajet printheads, inks used in those printheads and the operation of the printheads and the inks as a system.
4. The Trident inks are specifically designed to work in the Trident Ultrajet printheads and are not therefore staples.
5. The only inks known to work in Trident Ultrajet printheads fall within the scope of the Trident licensed patent portfolio.

6. Trident will continue to require purchasers of Ultrajet printheads to purchase their requirements for ink from Trident with the price of the ink reflecting a royalty for a license under the Trident license patent portfolio while the price of the Ultrajet printheads will remain substantially the same.

New Products

1. While the PixelJet and MicroCoder printheads and the ink used in those printheads remain strongly interdependent to achieve published performance specifications, both the Pixeljet and the MicroCoder are substantially less susceptible to corrosion and chemical attack by the inks used in those printheads.
2. Both the Pixeljet and the MicroCoder pnintheads are the subject of Trident's existing license patent portfolio as well as an expanding patent portfolio directed to the printheads themselves as well as the operation of a system employing the printheads and the inks used in the printheads.
3. Trident's resources will limit the ability to make the wide variety of inks required with the various Pixeljet and MicroCoder product applications.

Exhibit 22

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Protection of Trident's Consumable Business

Trident has taken various actions and precautions to assure a continued consumables business for Trident. These actions and precautions are outlined below:

A. Ink Patent Portfolio

Trident has obtained and maintained an extensive ink patent portfolio. To the extent possible, Trident has sought and obtained patent coverage with the broadest possible claims for the various inks that Trident's customer use. The claims of these patents are not directed to narrow formulations but rather, in most cases, broad recitations of characteristics and compositions necessary to provide compatibility with Trident printheads while achieving good jetting and marking performance.

B. Ink Supply Patent Coverage

Trident has obtained U.S. patent coverage on the Trident ink supply system in the form of U.S. Patent 5,343,226 ("the '226 patent") and an application still pending in the U.S. Patent & Trademark Office which will provide additional claim coverage. Based on this patent coverage, Trident marks its ink supply containers which include a bottle and valved cap with a notice of a single-use license under the '226 patent of the type sanctioned by the Federal Circuit Court of Appeals in the Mallinckrodt case which forms Attachment A. By using such a license, Trident has a cause of action for patent infringement by a customer or a third party who refills the bottle with non-Trident ink. The patent also gives Trident a cause of action against a third party or customer who makes or sells another bottle with a valved cap covered by the claims of the patent and fills that bottle with non-Trident ink.

C. Sales and License Agreement Requires Use of Trident Ink

A standard Trident Sales and License Agreement is signed by all customers. Under the terms of this agreement, Trident's customers receive a grant of a license to use Trident printheads and other Trident supplied apparatus which is covered by the Trident patents. The license grant is only valid if Trident supplied ink and other consumables are used in or with the patented Trident apparatus. If a Trident customer or a customer of a Trident customer uses non-Trident ink or other consumables, Trident has a case of action for patent infringement against such a customer or a customer of a customer since that activity is unlicensed and filing such a bottle with non-Trident ink infringes. Trident also has a cause of action against anyone selling ink to Trident's direct or indirect customers for inducing a breach of Trident's Sales and License Agreement which requires the purchase of ink and other consumables from Trident.

* * *

Exhibit 23

MARSH COMPANY

MEMORANDUM

17 December 1996

TO: Elaine Pullen

FROM: TG Barnett

RE: Meeting Notes

Please excuse my delay in getting the notes from the meeting completed. I believe the following are the key points we addressed:

1) Overall discussion of Marsh and Trident Goals

   a) Marsh profitability on Hi-Res product line of 10%-15%
   b) Trident market expansion of 100% plus
   c) Trident revenue growth of 50% plus
   d) Long-term business relationship
   e) Marsh control of its ink business
   f) Product differentiation

I believe it is clear that we both understand the importance of the overall business relationship and the fact that we are both committed to growing the Hi-Res business profitably for both parties. Additionally, the benefits of the installed base and ink sales is clear to each party.

2) Marsh's immediate business needs are focused on the de-priming issues we are experiencing with our Hi-Res products. We are working closely with your Team to address these concerns and we appreciate your support in addressing the problems and issues we have identified with a view towards both an immediate and longer-tent solution.

3) License Agreement on the Ink System — You advised that Trident's policy is that customers who elect to use their own source of ink for PixelJet will not be allowed to use an Ultrajet compatible ink system or bottle with the PixelJet. Use of Trident proprietary

technology on non-Trident printheads requires a separate license agreement.

4) Warranty — The recent tone of various correspondence is concerning. We agreed our objective is to determine what the problem is and satisfy the customer first, then sort out the issues with respect to warranty and costs.

5) Independent Ink — You are pursuing this matter and will advise of future developments.

6) Policy on Customer Visits — You advised that customer visits would not be authorized and we agreed with this policy.

7) Discounts — Trident is not willing at this time to increase product discounts beyond the currently published levels, but will consider mutually beneficial development or marketing programs which contribute to reducing Marsh's cost of sales or overhead to support the Trident product.

Additionally, we discussed the following personnel from Marsh and Trident would be involved in future matters.

	Marsh	Trident
Technical Issues		
	Jerry Partlow	Richard Cutting
	Curtis Droege	Jeff Cartin
	Matt Darr	Steve Liker
	Jim Wilson	Cynthia Edgar
	Randy Lewis (ink)	Allan Wells
	Mike Avery (ink)	Al Stanco
	Mark Mendez	
	Peter Lapins	
Purchasing/ Customer Services		

	Catherine Case	Dave Vece
	Margie Faulk	
Forecast Demand/ Annual Budget		
	TG Barnett	Elaine Pullen
	JM King	
Financial		
	Mike Rickert	Leo Gagne
Pricing	JM King	Elaine Pullen

Exhibit 24

TRIDENT, INC.

INTEROFFICE MEMORANDUM

DATE: December 19, 1994

TO: D. Hicks, D. Hundt, M. Laverty, S. Liker, R. Rogers, C. Schlemmer

cc: RHVB

FROM: Elaine Pullen

SUBJECT: Customer Attitude Survey

As some of you may recall, a customer Attitude Survey was conducted by Frank Barbosa of Boyden in January 1992. Several very useful comments were made; both negative and positive, about Trident and our staff.

I have engaged Frank to repeat the survey in January 1995.

Our objectives are similar to those of the original survey with the added goal of benchmarking our progress, or lack of progress, from before.

We will also place a greater emphasis on our International business this time.

Frank will be at Trident on January 6th for the kick-off meeting. He will want to meet with some of you to determine what you think are our strengths and weakness from the customers' viewpoint, any particularly sensitive issues, and what we have changed since the last survey.

Attached is a copy of the original survey. Please review it and note any additions or deletions you would like to see, and what we have done to address the recommendations.

Thank you.

/s/ Elaine Pullen
Elaine Pullen

3.3 KEY FINDINGS

3.3.1 WEAKEST ATTRIBUTE

- LICENSING POLICY
  - RANKED AS THE MOST WEAK ATTRIBUTE
  - 59% OF RESPONSES RATED THIS AREA EITHER AS WEAKEST OR BELOW AVERAGE
  - WEIGHTED POINTS: 2.33

    RELATIVE RANKING: 100%
- COMMENTS
  - TOO COMPLICATED . . . CONCERNS ON LIMITATIONS
  - PROBLEM AREA . . . NEED LAWYERS
  - TOO POLITICAL, LEGAL AND PROTECTIVE
  - NO EXCLUSIVITY
  - STRANGE PHILOSOPHY . . . ONE SIDED
  - SECRETIVE
  - NEED 6-9 MONTHS TO NEGOTIATE
  - THE COMPANY APPEARS PARANOID . . . SLOWS DOWN THE PROCESS
  - EXTEND WARRANTY AFTER REPLACEMENT . . . OR SOME SORT OF CREDIT
  - POLICY STINKS!
  - "TAKE IT OR LEAVE IT" ATTITUDE

Boyden
55 Madison Avenue
Morristown, New Jersey 07960
Telephone: (201) 267-0980
Fax: (201) 267-6172

TRIDENT CORPORATION
CUSTOMER ATTITUDE SURVEY
FEBRUARY 1995

PREPARED BY:

FRANK DARBOSA
BOYDEN CONSULTING
CORP.
FEBRUARY 22, 1995

Worldwide Consultants to Management
Since 1946

- POSITIVE CHANGES
  - LICENSING POLICY . . . LESS RESTRICTIVE . . . CUSTOMERS ACCEPT THE NEED . . . THEY APPEAR TO BE LOOKING FORWARD TO THE POSSIBILITY OF COMPETITIVE INKS
  - ORDER ENTRY . . . MORE RESPONSIVE BUT WITH SOME NEED TO BE MORE FLEXIBLE
  - BILLING ...BETTER
  - DOCUMENTATION ...HAS IMPROVED BUT WITH SOME NEED FOR MORE DETAIL IN ELECTRONICS AND SOFTWARE
  - OVERALL RATING ... IMPROVEMENT WITH OBSERVATIONS OF POSITIVE IMPROVEMENTS OVER LAST 2 YEARS AND BEING AN EXCELLENT COMPANY TO WORK WITH
- BASICALLY NO CHANGE
  - PRODUCT ... PERFORMING WELL . . . NUMBER ONE!
  - TRAINING/SUPPORT . . . TRAINING IS OUTSTANDING AND WELL DONE . . . SOME NEED FOR MORE SUPPORT
- CONTINUED CONCERNS
  - TECHNOLOGIES/FUTURES . . . LESS PRE-MATURE ANNOUNCEMENTS, BUT LESS UNDERSTANDING OF FUTURE DIRECTION . . . STILL SLOW!!
  - PRICING . . . STILL CONSIDERED HIGH FOR HEADS . . . EXCESSIVE FOR INKS

3.3.8 COLLATERAL MATERIALS

- FINDINGS
  - CONSIDERED AS GOOD TO EXCELLENT
  - HOWEVER, MANY OF THE RESPONDENTS WERE SOMEWHAT UNAWARE OF THE MATERIALS
  - APPEARS TO BE A NEED FOR A MORE PRO-ACTIVE INFORMATION CAMPAIGN
  - CHANGES SINCE 1992: EARLIER PERCEPTIONS WERE VERY POSITIVE. CURRENT ATTITUDES APPEAR SOMEWHAT *LESS*. . . PRIMARILY DUE TO NON-FAMILIARITY

3.3.9 LICENSING

- FINDINGS
  - CUSTOMER RELUCTANT, BUT ACCEPT THE NEED
  - CONSIDER IT TO BE TOO COMPLEX, PROTECTIVE AND ONE-SIDED
  - CONCERNS ON "NO BARRIERS" TO OTHERS
  - *CHANGES SINCE 1992*: SIGNIFICANTLY LESS ANNOYANCE SINCE IT IS EASIER TO UNDERSTAND AND IS LESS RESTRICTIVE
- COMMENTS
  - NO BARRIERS TO OTHERS . . . ONE SIDED AND COMPLEX

- I WANT TO USE OTHER INKS
- STINKS! . . . NO LOYALTY .

3.4 SUMMARY COMPARISONS (1995 VS. 1997)

- CUSTOMERS CONTINUE TO FEEL POSITIVE ABOUT TRIDENT
- OVERALL IMPROVEMENT +9.0%
- COMPARISON TO 1993 +19.0%
- INCREASED VOLATILITY . . . INFLUENCED BY PRICING AND LICENSING

	1.0	2.0	3.0	4.0	5.0
	WEAK	BELOW AVG.	AVERAGE	GOOD	STRONG
1992	2%	22%	25%	41%	10%
			66%		
1995	0	7	23%	65%	5
			89%		
1997	2	13	20%	56%	9
			76%		

- APPROXIMATELY 70% RESPONSE RATE

  NO RESPONSE FROM JIM BRINGHAM, PRESIDENT – DIAGRAPH; RICHARD FOX, PRESIDENT-FOXJET; AND HOWARD HILL, PRESIDENT-PRISM

  NO RESPONSE FROM FAR EAST . . . LOW RATE FROM EUROPE

- POSITIVE CHANGES:

  ⇒ THE SELLING PROCESS — CUSTOMERS MORE AWARE OF INCREASED SALES COVERAGE, EXCELLENT FEEDBACK IN EUROPE. SOME CONCERNS IN UNITED STATES THAT SOME CUSTOMER NEEDS WERE EXPLAINED TO SALES HAVE *NOT* BEEN COMMUNICATED

BACK TO HQ. SOME CONCERNS ON SELLING TO "ANYONE".

⇒ TECHNOLOGIES/FUTURES – CUSTOMERS VERY OPTIMISTIC ABOUT THE FUTURE OF THE TECHNOLOGY. TRIDENT HAS THE "BEST" TECHNOLOGY FOR CARTON CODING. SOME CONCERN THAT TRIDENT MIGHT COMPETE DIRECTLY WITH A SYSTEMS PRODUCT TO END USERS. NEED MORE NEW PRODUCTS.

⇒ COMPETITION – NOT AS ACTIVE AS IN EARLIER SURVEY. SOME RUMORS OF LASER/INK FOG. CUSTOMERS HOPING FOR COMPETITION. INK PIRATES COMING.

- NEGATIVE CHANGES

⇒ LICENSING POLICY – TOO RESTRICTIVE, PARTICULARLY USE OF OTHER INKS AND RIGHTS TO DESIGN IMPROVEMENTS.

⇒ PRICING – HEADS TOO EXCESSIVE, ALSO INKS. NEED FOR MORE DIFFERENTIATION BETWEEN SMALLER AND MAJOR ACCOUNTS.

⇒ TRAINING & SUPPORT – STILL EXCELLENT BUT CUSTOMERS USING LESS.

⇒ WARRANTY – ALTHOUGH RELATIVE SCORE REMAINED THE *SAME* SINCE LAST SURVEY, *CONSIDERABLE COMMENTS* WERE RECEIVED WHICH WOULD SUGGEST A NEED FOR POSSIBLE CLARIFICATION.

- BASICALLY NO CHANGE

  ⇒ PRODUCT – MEETING PERFORMANCE EXPECTATIONS. CONCERNS ON PRIMING AND WANTING MORE "RUGGED" DESIGN. PRODUCT TOO SENSITIVE. NO COMMENTS ON PREMATURE RELEASES.

  ⇒ CONTINUED POSITIVE RESPONSES

  CUSTOMER NEEDS "VERY RESPONSIVE"

  PRODUCT DOCUMENTATION "WELL DONE"

  COLLATERALS "WELL DONE"

  ORDER ENTRY "VERY RESPONSIVE"

  SHIPMENT "ON SCHEDULE"

  REPAIR "EXCELLENT"

  OVERALL COMMUNICATIONS "PROFESSIONAL AND GOOD PEOPLE"

3.5.2 PRODUCT

- 1997 FINDINGS

  ⇒ MEETING PERFORMANCE EXPECTATIONS – MORE STABLE PRODUCT

  ⇒ CONCERNS ON PRIMING

  ⇒ NEED FOR MORE RUGGED DESIGN – TOO SENSIITIVE

  ⇒ NO COMPETITION

  ⇒ NO COMMENTS ON PREMATURE RELEASES

- 1997 COMMENTS

- ⇒ PRODUCT PERFORMING BETTER THAN EXPECTED
- ⇒ PERFORMING BETTER THAN 4 YEARS AGO
- ⇒ THERE ARE NO ALTERNATIVES – NO COMPETITION
- ⇒ START-UP PROBLEMS, TOO SENSITIVE, PROBLEMS IN HOSTILE ENVIRONMENT, NEED TO RUGGEDIZE
- ⇒ SOME PROBLEMS WITH INKS, HIGH INK USAGE, CARBON PROBLEMS
- ⇒ TRIDENT CAN'T GIVE ANSWERS ON INK CONSUMPTION RATES
- ⇒ FIELD FAILURE RATE 8% - NEED MORE ROBUST
- ⇒ SOME PROBLEMS WITH ALL WRITE
- ⇒ PERFORMANCE CAN RANGE, DEPENDS ON APPLICATION
- ⇒ NO NEGATIVE COMMENTS ON PREMATURE LAUNCH

3.5.3 <u>TECHNOLOGIES/FUTURES</u>

- 1997 FINDINGS
  - ⇒ CUSTOMERS VERY OPTIMISTIC ABOUT THE FUTURE OF TECHNOLOGY
  - ⇒ SOME CONCERN THAT TRIDENT MIGHT COMPETE WITH TOTAL SYSTEM TO END USER
  - ⇒ NEED NEW PRODUCTS
- 1997 COMMENTS

- ⇒ NEED FOR GREATER THROW DISTANCE, QUICKER DRYING INK, RUGGEDIZE, AND CORRECT PRIMING PROBLEMS
- ⇒ ORIGINAL PRODUCT DID NOT MEET UPC SPECIFICATION
- ⇒ EXCELLENT FOR QUALITY BAR CODING
- ⇒ PRODUCT IS IMPROVING
- ⇒ WILL BE IMPACED BY "LASER" SYSTEM THAT APPLIES TONER INK BY AIR LASER STREAM
- ⇒ SOME COMMENTS THAT TECHNOLOGY HAS "PEAKED"
- ⇒ EXCELLENT CORE TECHNOLOGY, CAN GROW INTO NEW APPLICATIONS
- ⇒ HIGHLY PRICED HARDWARE AND INK
- ⇒ NEED MORE NEW PRODUCTS
- ⇒ CUSTOMERS HAVE MADE SPECIFIC RECOMMENDATIONS, FEEDBACK?

3.5.4 <u>COMPETITION</u>

- 1997 FINDINGS
  - ⇒ NOT AS ACTIVE AS IN 1995 STUDY
  - ⇒ RUMORS OF LASER/INK FOG
  - ⇒ INK PIRATES ARE COMING
  - ⇒ CUSTOMERS HOPING FOR COMPETITION
- 1997 COMMENTS

⇒ TRIDENT ON "TOP", NO COMPETITORS FOR THEIR APPLICTION

⇒ LIMITED COMPETITION, SPECTRA GOOD BUT NO MARKETING

⇒ IF COMPETITION COMES, WILL USE AS A LEVER AGAINST TRIDENT

⇒ COMPETITION COMING WITH HOT MELT INKS

3.5.5 CUSTOMER NEEDS

- 1997 FINDINGS

  ⇒ CONTINUES TO BE VERY RESPONSIVE COMPANY

  ⇒ SOMETIMES TOO ARROGANT

- 1997 COMMENTS

  ⇒ SOMETIMES WILL NOT ADMIT TO PROBLEMS

  ⇒ RESPONSE HAS IMPROVED, DEPRIMING PROBLEM

  ⇒ WHY IS THE PRICE OF 16 JET HEAD MORE EXPENSIVE THAN 32 JET?

  ⇒ TRIDENT SOMETIMES WILL MAKE PRODUCT CHANGES WITHOUT WARNING CUSTOMERS

  ⇒ TOOK TOO LONG TO CORRECT ALL WRITE PROBLEMS

  ⇒ LOTS OF SALES CALLS, NO FOLLOW-UP ON BIG ISSUES

  ⇒ SOMETIMES DIFFICULT TO GET RIGHT ANSWER

⇒ SOMETIMES NOT UP FRONT-LEGAL ISSUES

⇒ NEED FOR BETTER RESPONSE IN ENGLAND

⇒ MIKE LAFERTY IS GREAT – U.S. IS SLOWER

3.5.9 LICENSING

- 1997 FINDINGS
  - ⇒ TOO RESTRICTIVE
  - ⇒ CONCERNS ON USE OF OTHER INKS AND OWNERSHIP OF DESIGN IMPROVEMENTS
- 1997 COMMENTS
  - ⇒ TOO RESTRICTIVE, BUT OK IF ALL TREATED EQUAL
  - ⇒ GETTING MORE FLEXIBLE, PARTICULARLY ON USE OF INKS
  - ⇒ SHOULD BE MORE FLEXIBLE FOR MAJOR CUSTOMERS
  - ⇒ WHAT WILL TRIDENT DO WHEN PIRATES APPEAR?
  - ⇒ WHEN CUSTOMER MAKES A DESIGN IMPROVEMENT, TRIDENT WANTS TO PATENT
  - ⇒ WHY NOT A CERTIFICATION PROCESS ON CUSTOMER DEVELOPED INK?
  - ⇒ CONCERNS ON SELLING TO COMPANIES WITH BAD SYSTEMS

3.5.10 PRICING

- 1997 FINDINGS
  - ⇒ PRICES ON HEADS AND INKS ARE TOO EXCESSIVE
  - ⇒ NEED FOR MORE DIFFERENTIATION BETWEEN SMALLER AND MAJOR ACCOUNTS
- 1997 COMMENTS
  - ⇒ VERY STEEP DIFFERENCE; 8X VS. 3X HEAD
  - ⇒ HEAD COST IS 66% OF TOTAL SYSTEM COST
  - ⇒ DOUBLE PRICE FOR 2X ORFICES??
  - ⇒ PIXEL JET; 16 CHANNELS IS TOO EXPENSIVE
  - ⇒ PRICE DIFFERENTIAL AND VOLUME DISCOUNTS HAVE IMPROVED, BUT NOT ENOUGH
  - ⇒ INK IS TOO EXPENSIVE
  - ⇒ 256 VS. 96; WHY 2X PRICE?
  - ⇒ 256/32 IS TOO HIGH
  - ⇒ INK PRICES AT MERCY OF TRIDENT

3.5.11 ORDER ENTRY

- 1997 FINDINGS
  - ⇒ CONTINUES TO BE CONSIDERED AS GOOD – SOME BUGS BUT FEW PROBLEMS

3.5.12 SHIPMENTS

- 1997 FINDINGS

- ⇒ STILL CONSIDERED GOOD, TIMELY
- ⇒ "QUICK PLAN" APPEARS TO BE HELPFUL

- . COMMENTS
  - ⇒ LEAD TIMES TOO HIGH, NEED BETTER RESPONSE FOR EMERGENCY
  - ⇒ MORE FLEXIBLE LATELY
  - ⇒ SOME CONFUSION, CHANGE IN DEFINITION OF "REQUEST DATE" VS. "SHIP DATE"

3.5.13 WARRANTY

- 1997 FINDINGS
  - ⇒ ALTHOUGH RELATIVE SCORE IMPROVED OVER LAST SURVEY, CONSIDERABLE COMMENTS WERE RECEIVED WHICH MIGHT SUGGEST A NEED FOR SOME STUDY

4.0 CONCLUSIONS

- CUSTOMERS GENERALLY FEEL THAT TRIDENT IS A *SOLID* AND *WELL* RESPECTED COMPANY
- MOST CUSTOMER OPERATIONAL INTERFACES ARE RATED *GOOD* TO *STRONG*
- *CHANGES* IN ATTRIBUTES SINCE 1995 SURVEY:

POSITIVE	NEGATIVE
SELLING PROCESS	LICENSING POLICY

TECHNOLOGIES/FUTURES
COMPETITION

PRICING
TRAINING & SUPPORT
(REDUCED USE?)

- WARRANTY/REPAIR (CONSIDERABLE QUESTIONS?)

- CUSTOMERS GENERALLY APPEAR POSITIVE ABOUT THE TECHNOLOGY, BUT HAVE CONCERNS ON *PRICING* AND *LICENSING* POLICY. THEY WANT COMPETITION AS A LEVER AGAINST TRIDENT. NO SIGNIFICANT HARDWARE COMPETITION FOR *CARTON CODING*, HOWEVER, IT IS EXPECTED IN THE NEAR TERM. INK PIRATES WILL TARGET MAJOR CUSTOMERS.
- *TRAINING* AND *SUPPORT* WAS SOMEWHAT NEGATIVE. HOWEVER, WELL REGARDED BUT POSSIBILITY THAT CUSTOMERS ARE TRAINING MORE OF THEIR OWN.
- AREAS OF POSSIBLE CONCERN IN *WARRANTY* AND *REPAIR*. AS INSTALLED BASE GROWS, THIS WILL BE AN ATTRACTIVE SOURCE OF *REVENUE* AND *PROFIT*.
- PRODUCT PERFORMANCE APPEARS TO MEET GOALS. FEW COMMENTS ON PREMATURE RELEASES OR NON-PERFORMANCE. CONCERNS ON PRIMING PROBLEMS - NEED FOR MORE USER FRIENDLY AND RUGGED DESIGN. CUSTOMERS ANTICIPATE A BROADER RANGE OF PRODUCTS AND INKS.
- CONTINUED NEED TO ANTICIPATE AND COUNTER PROBABLE COMPETITION. NEED FOR *HEAD COST* REDUCTION AND EXPECT

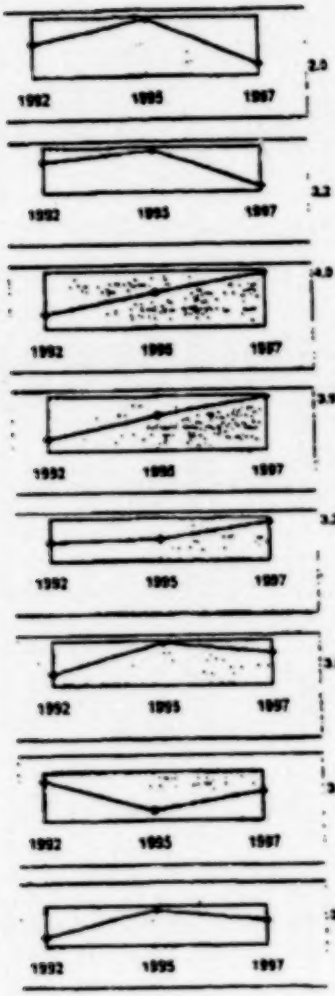
INK PIRATES TO TARGET MAJOR CUSTOMERS.

Skott/Edwards Consultants
1776 On The Green
Morristow, NJ 09760
Telephone: (201) 644-0990
Fax: (201) 644-0991

TRIDENT CORPORATION
CUSTOMER ATTITUDE SURVEY
MARCH 1997

PREPARED BY:
FRANK BARBOSA
SKOTT/EDWARDS CONSULTANTS

APRIL 1, 1997



LICENSING POLICY

* DECLINE - too restrictive
* Concerns on other inks and ownership of design improvements

PRICING

* Prices for heads and inks are excessive
* Need for greater differences for major accounts

ORDER ENTRY

* Continues to IMPROVE
* Rated as Good, few bugs

SHIPMENTS

* Continued improvement
* Rated as Good, quick plan a help - need for shorter interval for emergency

WARRANTY/REPAIR

* Rated as Good
* Considerable comments - concern?
* Different policy: US vs. Europe

BILLING

* Continues as Good

OVERALL COMMUNICATIONS

* Continues as Good
* Great company

OVERALL COMPANY RATING

* Continues as very good
* Strong/solid company

CONFIDENTIAL

TRD 33345

Skott/Edwards Consultants
1776 On The Green
Morristow, NJ 09760
Telephone: (201) 644-0991
Fax: (201) 644-0991

TRIDENT CORPORATION
CUSTOMER ATTITUDE SURVEY
MARCH 1997

PREPARED BY:
FRANK BARBOSA
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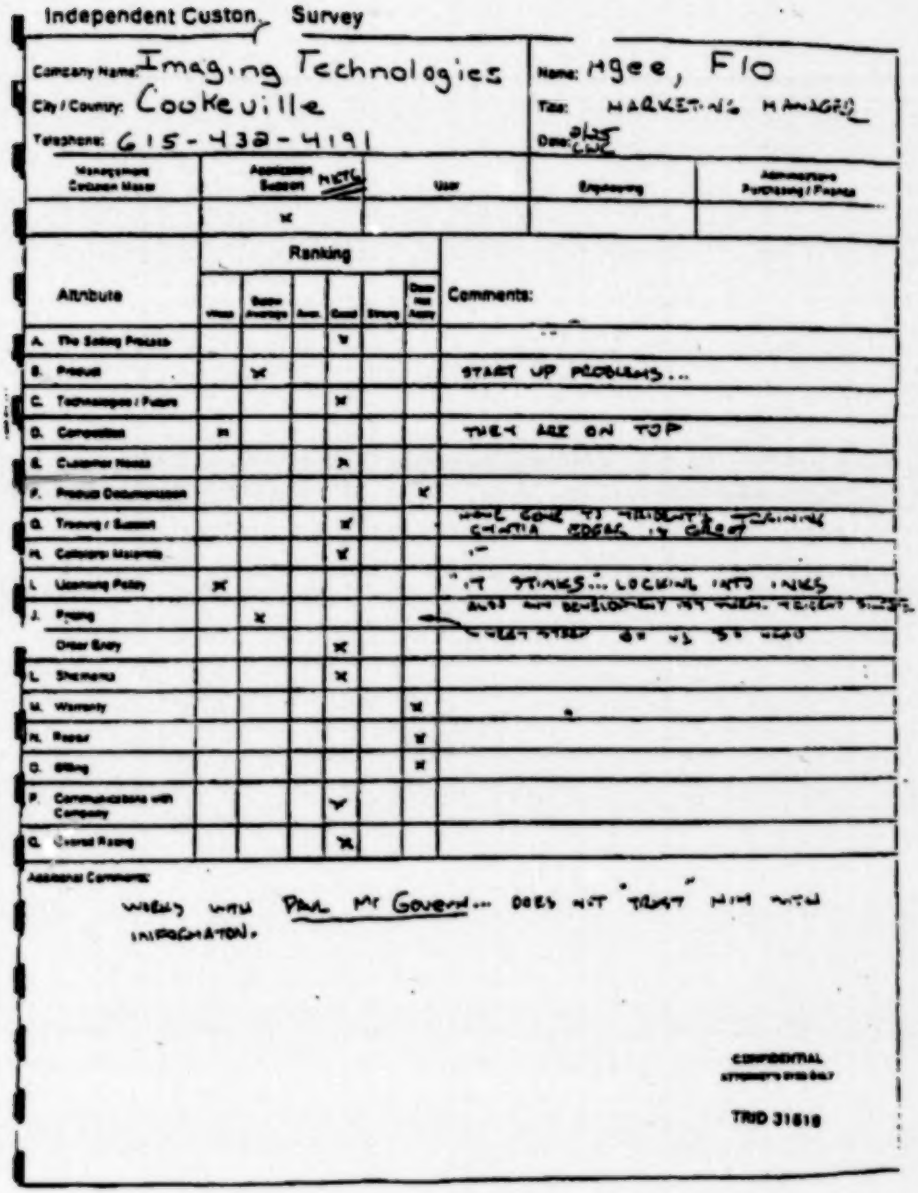
APRIL 1, 1997



Independent Custom Survey

Company Name: Imaging Technologies	Name: Hgee, Flo
City / Country: Cookeville	Title: MARKETING MANAGER
Telephone: 615-432-4191	Date: 2/25 CWC

Management Decision Maker	Application Support NKTG	User	Engineering	Administrative Purchasing / Finance
	X			

Attribute	Ranking: Weak	Below Average	Avg.	Good	Strong	Does not Apply	Comments:
A. The Selling Process				X			
B. Product		X					START UP PROBLEMS...
C. Technologies / Future				X			
D. Competition	X						THEY ARE ON TOP
E. Customer Needs				X			
F. Product Documentation						X	
G. Training / Support				X			HAVE GONE TO TRIDENT'S TRAINING CYNTHIA EDGAR IS GREAT
H. Collateral Materials				X			
I. Licensing Policy	X						"IT STINKS"... LOCKING INTO INKS
J. Pricing		X					ALSO ANY DEVELOPMENT [illegible] TRIDENT [illegible]
Other Entry				X			[illegible]
L. Shipments				X			
M. Warranty						X	
N. Repair						X	
O. Billing						X	
P. Communications with Company				X			
Q. Overall Rating				X			

Additional Comments:

WORKS WITH PAUL McGOVERN... DOES NOT "TRUST" HIM WITH INFORMATION.

CONFIDENTIAL
ATTORNEY'S EYES ONLY

TRID 31818

* * *

1995 CUSTOMER ATTITUDE SURVEY

COMPANY: CUEPRINT	PERSON CONTACTED: COLEMAN. TONY
CITY/STATE: ENGLAND	TITLE: MANAGING DIRECTOR
TELEPHONE NUMBER: 011 44 276 691730	DATE: 3/2 4/7 LMC,
	Category / DM / USER / ADMIN

ATTRIBUTE	RANKING 1 = LOWEST / 5 = HIGHEST 1	2	3	4	5	NOT APPLIC	COMMENTS
A. Selling Process						X	CAN'T REMEMBER
B. Product				X			[illegible] - CAN'T MAKE UP THEIR MIND - BETTER
C. Technology/Futures						X	BUT CONFUSING INVENTION
D. Competition						X	- MANY PEOPLE TRYING - [illegible]
E. Customer Needs						X	- NOTHING SIGNIFICANT YET
F. Product Documentation				X			
G. Training/Support				X			NOT USED - TRAINED THEMSELVES
H. Collateral Materials				X			THE MIKE IS GOOD
I. Licensing Policy			X				THEY LIVE WITH IT
J. Pricing			X				VERY HIGH, HEAD & INK
K. Order Entry				X			BETTER NOW
L. Shipments				X			8 WEEK LEAD TIME [illegible]
M. Warranty/Repair				X			THEY HAVE NOT TESTED -
N. Billing				X			
O. Communications w/Co.				X			KNOW ELAINE / NUEN
P. Overall Rating				X			GOOD COMPANY

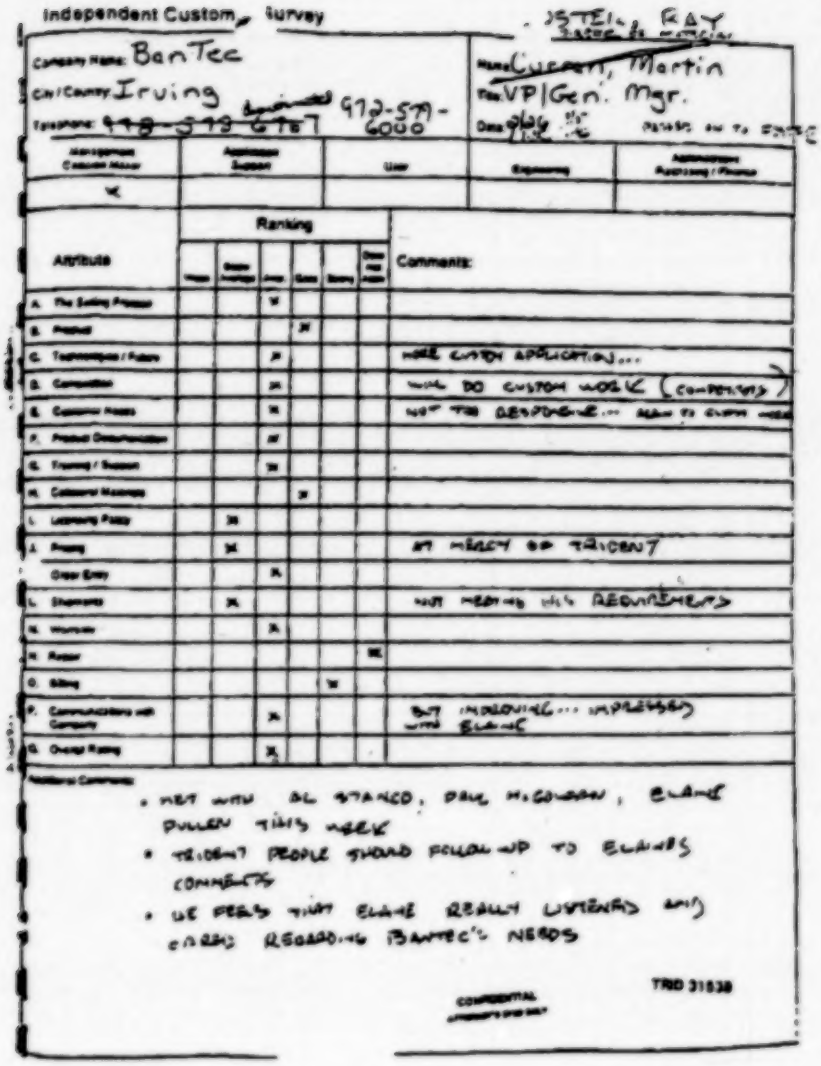
ADDITIONAL COMMENTS: - DESIGN S/W & MACHINES...
- $5 MILLION POUND CONTRACT... STAMP CANCELLATION
- 4 HEADS WITH GOV'T MAIL -
PLUS OUTER CARTONS... APOLLO MODEL, BAR CODE... WHOLE SIDES - SECURITY DETAILS BATCH [illegible] CODING

WHAT TO DO WITH OLD HEADS?

Changes Since 1992 Survey: - 4 1/2 YEARS WITH TRIDENT... JUST LAUNCHED NEW PRODUCTS IN LAST 18 MOS.
- ADDOLD USING 2" HEAD

CONFIDENTIAL ATTORNEY'S EYES ONLY

TRIO 31830



Independent Custom Survey

[illegible] RAY

Company Name: BanTec	Name: Curran, Martin
City/County: Irving	Title: VP/Gen. Mgr.
Telephone: ~~972-579-6767~~ 972-579-6000	Date: [illegible]

Management Decision Maker	Application Support	User	Engineering	Administrative Purchasing / Finance
X				

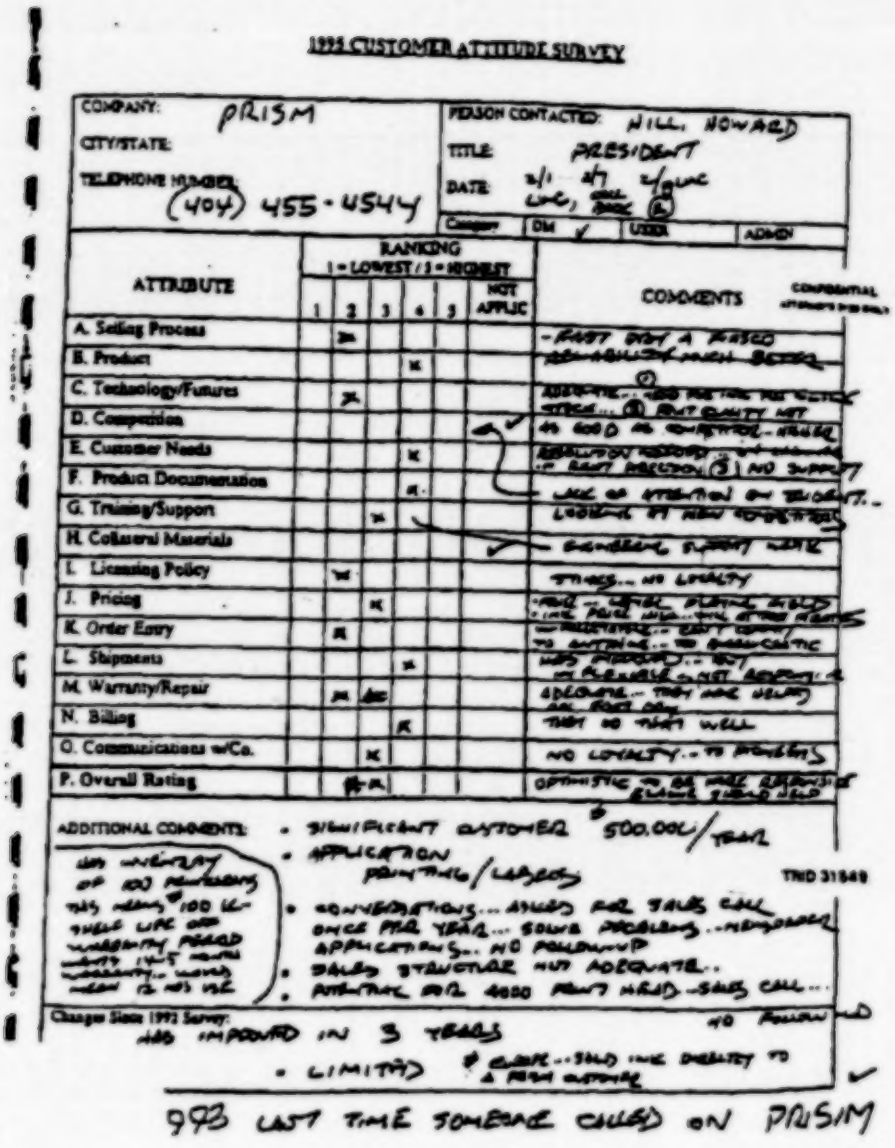
Attribute	Ranking: Weak	Below Average	Average	Good	Strong	Does not Apply	Comments:
A. The Selling Process			X				
B. Product				X			
C. Technologies / Future			X				MORE CUSTOM APPLICATION...
D. Competition			X				WILL DO CUSTOM WORK (COMPETITORS)
E. Customer Needs			X				NOT TOO RESPONSIVE... [illegible]
F. Product Documentation			X				
G. Training / Support			X				
H. Collateral Materials				X			
I. Licensing Policy		X					
J. Pricing		X					AT MERCY OF TRIDENT
Order Entry			X				
L. Shipments		X					NOT MEETING HIS REQUIREMENTS
M. Warranty			X				
N. Repair						X	
O. Billing					X		
P. Communications with Company			X				BUT IMPROVING... IMPRESSED WITH ELAINE
Q. Overall Rating			X				

Additional Comments:

- MET WITH AL STANCO, PAUL MCGOWAN, ELAINE PULLEN THIS WEEK
- TRIDENT PEOPLE SHOULD FOLLOW UP TO ELAINES COMMENTS
- HE FEELS THAT ELAINE REALLY LISTENED AND CARED REGARDING BANTEC'S NEEDS

TRID 31538

CONFIDENTIAL



1992 CUSTOMER ATTITUDE SURVEY

COMPANY: PRISM
CITY/STATE:
TELEPHONE NUMBER: (404) 455-4544
PERSON CONTACTED: BILL HOWARD
TITLE: PRESIDENT
DATE: 2/1 4/7 2/91/92 LMC, call back (A)
Category: DM ✓ USER ADMIN

ATTRIBUTE	RANKING 1=LOWEST / 5=HIGHEST 1	2	3	4	5	NOT APPLIC	COMMENTS (CONFIDENTIAL)
A. Selling Process		2x					- FIRST TIME A PERSON
B. Product				K			
C. Technology/Futures		2x					ADEQUATE... (2)
D. Competition						✓	AS GOOD AS COMPETITION - HIGHER
E. Customer Needs				K			(3) NO SUPPORT
F. Product Documentation				4.			
G. Training/Support			3x				
H. Collateral Materials						✓	
I. Licensing Policy		1x					
J. Pricing			K				
K. Order Entry		K					
L. Shipments				4x			
M. Warranty/Repair		2x	4x				
N. Billing				K			
O. Communications w/Co.			K				
P. Overall Rating		2x					

ADDITIONAL COMMENTS:
- SIGNIFICANT CUSTOMER $500,000/YEAR
- APPLICATION PROMOTING / LEADER
- CONVERSATIONS... ASKED FOR SALES CALL ONCE PER YEAR... SOME PROBLEMS... NEW/OLDER APPLICATIONS... NO FOLLOWUP
- SALES STRUCTURE NOT ADEQUATE...
- POTENTIAL FOR 4000 PRINT HEAD SALES CALL...

TRID 31549

Change Since 1992 Survey: NO FOLLOW UP
- ADD IMPROVED IN 3 YEARS
- LIMITED # CLOSE... SOLD INC. ABILITY TO A NEW CUSTOMER

993 LAST TIME SOMEONE CALLED ON PRISM

Exhibit 25

March 10, 1999

Elaine Pullen, President
Trident International

Dear Elaine:

I are writing regarding the issues surrounding third party ink suppliers and the critical situation we face. I have recently received several inputs from my distributors and other sources and some facts which I will relate to you below. My conclusion is that ITI can no longer continue to talk about possible actions, but rather we must now take action.

Two key developments have occurred that we have now seen in fact. Third party suppliers are selling inks to end users as low as $119 per bottle in single quantifies. This translates to distributor pricing under $80 per bottle and OEM pricing below $50 to allow for distributor margins. Marsh, as you said to me, has been selling their own ink in violation of their agreement with Trident, and at substantially lower prices. While this had supposedly been stopped. I do not believe they have truly stopped. One source this week stated Marsh reps claiming the ink was their product, not Trident, at $169 per bottle to the end user — a reduction of $100 per bottle to that customer. Some of the results from the performance of these inks has been satisfactory or better than Trident in that some are blacker and preferred on that fact alone.

ITI must be able to respond to these low price incursions directly. Ink is about one third of our business and, hence, our margins. We cannot survive without that business. In order to lower our prices to a sufficient level to compete and retain our ink business, I see three alternatives. We can (a) lower our margins on Trident ink so we do not violate our agreement with Trident but at unacceptable margins; (b) obtain third party ink in violation of our agreement with Trident; or (c) Trident can meet the competition with a competitively priced ink. Only the third option keeps us working together and obtaining the margins that the market will allow. Trident must accept enough of the burden of reduced margins to keep its OEMs competitive. ITI will be forced to move to a third party ink very soon in order to survive without a satisfactory response from Trident. Without that support, we are forced to go to an alternate source in order to remain in business. We have been approached numerous times recently by third party ink suppliers with attractive pricing as mentioned above, but have always honored out commitment with Trident, in spirit and in letter.

My board of directors has requested to know the current official position between Marsh and Trident, backed by appropriate documentation, as I do believe the reports from the field that Marsh is actively selling their own ink in violation of the same agreement we have with Trident on this point. Is Trident taking action to force Marsh to cease and desist marketing and selling their own brand? What are the consequences to Marsh if they have not or do not cease? What are the results and outlook on these and other Trident legal initiative against other third party suppliers?

Elaine, Trident has be an excellent partner for ITI. We wish to retain that strong relationship. However, we now need your immediate and direct action to assure that Trident OEMs can remain competitive in this vital part of our mutual business. I honestly do not believe that stopping Marsh is the

right answer. The third parties will force the price of ink down inevitably. Hence, that is the action we need to address.

I will be out of town the week of March 12, 1999. I will be checking my voice mail from time to time and can call if needed. I will be eagerly looking forward to your reply.

Best regards,

/s/ LOYD TARVER
Loyd Tarver
President/CEO

Exhibit 26

Mohawk Company
738 Wilson St.
Santa Rosa, CA 95401
(707) 527-5757
Fax (707) 527-1745
(800) 344-1881

Mr. Robert A. Denafrio
Business Manager – Americas
TRIDENT INTERNATIONAL, INC.
1480 Renaissance Dr., Suite 105
Park Ridge, IL 60068

Dear Bob:

It was good to see you again at the WearPack Show in Anaheim. Although the Show was a major disappointment to me in terms of attendance and "live" prospects, it was a good warmup for the Las Vegas Show in October, and it did give me a chance to get a handle on what we can expect by way of price competition on ink from the "prints".

Enclosed is a copy of the legal opinion I obtained from Independent Ink which they give to people like myself to convince them that there is no real risk to them in using their ink. Perhaps the document will give you some insight as to the line of attack they are taking. In any event, I hope it will help you see the very real threat we face of losing our ink business unless we have the flexibility to change our price structure. Ultimately, it comes back to your pricing to your OEM customers and I know you are aware of the anxiety we all feel in that regard.

I also want to use this letter to repeat my proposal to you at the Show that Trident participate with Mohawk and ITI in a

printhead seminar out here on the West Coast. As new printhead technologies come on the scene, I think you would directly benefit from greater awareness and understanding of your technologies and your printheads. We would use this event/those events to educate our existing and prospective customers about the design and functioning of the heads and set the stage for a follow-on event that would give them hands-on experience in troubleshooting and, perhaps, even repairing of the heads. If nothing else, a better understanding about the Trident heads would help customers rationalize improved care and maintenance programs that would improve the operation of the heads and inject a positive attitude about the technology. Too many customers now have a negative view of high resolution technology because of depriming problems and the high incidence of costly breakdowns.

There are many steps we can take to counteract the above developments, but nothing would be more important than to have Trident involved with us building a base of confidence about the technology. I would be glad to discuss this further with you if you think it would be worthwhile from Trident's standpoint. A trial, one-shot program might help you to evaluate whether or not regular events of this type would be worthwhile for you.

Best regards,

/s/ Fritz J. Moennighoff
Fritz J. Moennighoff

Exhibit 27

TRIDENT INTERNATIONAL, INC.

INTER-OFFICE MEMORANDUM

DATE: January 22, 1999

TO: File

Cc: Valerie Lapinski, Andrew Borg, Don Hicks, Bob Donofrio, Norman Norris

FROM: Elaine A. Pullen

SUBJECT: *Visit Report: Videojet Systems Intl., January 21, 1999*

CONFIDENTIAL

Present:

Craig Bauer	President & CEO, VSI
Tom Barnett	President, Marsh Co.
Paul Witt	Director, Global Accounts, VSI
Valerie Lapinski	President, Dynatec
Elaine Pullen	President & CEO, Trident

Purpose:

To discuss resolution of Marsh/Videojet's breach of contract due to use of Marsh manufactured non-Trident ink in Trident printheads.

Discussion:

Tom Barnett repeated that he is only selling Marsh ink in either new systems or to win back lost accounts. We know this to be untrue. A Marsh distributor and two other OEM customers have confirmed that Marsh's distributors are being provided with an incentive to convert the installed base of both Marsh and other Trident OEM's systems. Tom continues to allege that his action was necessary to maintain profit-

ability and that Trident has failed to either prevent Graphic Controls from selling third party ink, or to offer Marsh an acceptable price concession on Trident ink. Tom claims that his action was determined only after negotiation failed. We also know this to be untrue as the ink development started at least three months before discussions on a new agreement commenced. Tom also reluctantly agreed that a price increase is planned for Trident ink in April. Valerie again stated that ITW has considerable legal resources as compared to Trident and that they have started a thorough legal review and will take appropriate action to stop Graphic Controls.

Valerie also stated again that ITW does not allow contracts to be breached and although our desire is to avoid a legal action, an injunction and damages are the likely outcome. ITW would also, if pressed, discontinue the supply of printheads to Videojet and Marsh.

Trident is agreeable to Marsh using a differentiated bottle but not to a non-Trident ink being used.

Valerie requested a sample bottle of Marsh ink and the ink formula to allow Trident to estimate the cost of producing them for Marsh. We also reminded Marsh that we have rights to the ink under the agreement, which appeared to take Tom by surprise. He has clearly not examined or interpreted the grant back properly and is under the impression that only patents are granted to Trident, not confidential or proprietary designs, which is wrong. Marsh agreed to send the bottle and formula ASAP. Trident agreed to prepare a proposal covering only the issues directly related to maximizing and protecting the ink business for both parties. Time frame to present a proposal is 2 weeks after we receive the ink.

I asked Tom how we should handle warranty claims for heads now that they may contain non-Trident ink. Tom believes that our warranty cover is minimal anyway except on new heads out of the box, and the three year CP/OP warranty. Marsh tests at incoming inspection with solvent, there-

fore they believe these heads should still be covered. I will check warranty claim history.

Videojet has successfully prevented Graphic Controls form [sic] copying their ink. Craig agreed to look up the nature of the settlement and provide the information to Valerie.

Finally, Videojet and Marsh were asked to stop selling their own ink while we negotiate an agreement. They agreed to discuss it and let us know their decision early next week.

/s/ Elaine

Exhibit 28

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

INDEPENDENT INK, INC., a California corporation Plaintiff vs. TRIDENT, INC., believed to be A Connecticut corporation, And DOES 1 through 50, Defendants. TRIDENT, INC., a Connecticut corporation Counterclaimant, vs. INDEPENDENT INK, INC., a California corporation, and DOES 1 through 10 Counterdefendants.	CASE NO. CV98-6686 NM (CWX)

THE DEPOSITION OF THOMAS BARNETT

St. Louis, Missouri
Monday, July 31, 2000

ATTORNEY'S EYES ONLY

Reported by:

CHERI A. RAIFFIE, CSR
Notary Public
Job No. 571580A

Esquire Deposition Services
2100 N. Broadway, Second Floor
Santa Ana, CA 92706
714-834-1671 • Fax 714-834-9235 • 800-888-6949

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

INDEPENDENT INK, INC., a California corporation Plaintiff vs. TRIDENT, INC., believed to be a Connecticut corporation, And DOES 1 through 50, Defendants.	CASE NO. CV98-6686 NM (CWX)
TRIDENT, INC., a Connecticut corporation Counterclaimimant, vs. INDEPENDENT INK, INC., a California corporation, and DOES 1 through 10 Counterdefendants.	

THE DEPOSITION OF THOMAS BARNETT, produced, sworn, and examined on the 31st day of July, 2000, between the hours of eight o'clock in the forenoon of that day and six o'clock in the afternoon of that day at the law offices of Bryan Cave, 1 Metropolitan Square, 211 N. Broadway, St. Louis, before CHERI A. RAIFFIE, Certified Shorthand Reporter and Notary Public within and for the State of Missouri, in a certain cause now pending in the United States District Court, Central District of California, between Independent Inck [sic], Inc., a California corporation, Plaintiff; and Trident, Inc., Defendants; and Trident,

Inc. a Connecticut corporation, Counterclaimant; and Independent Ink, Inc., a California corporation and DOES 1 through 10; taken on behalf of the Plaintiff and Counterdefendant, Independent Ink, Inc.

* * *

[Tr. 9] are confident you can go ahead and ask and if you would not get into the areas that would be subject to an Attorneys Eyes Only designation perhaps you could ask those and Mr. Brucker could remain and then when we get into another area of sensitivity —

MR. O'CONNOR: Okay. For example, where I'm going with this line of questioning right now I don't intend to ask him anything about the formulas or any specifics like that. This is kind of a general question. We all know that Marsh had their own ink at one point in time so I don't intend to get into anything that would involve customer lists or customer information or formulas or anything of that nature.

So, if I could allow Mr. Brucker to stay while I follow this line of questioning and if — why don't we do this, if I get to anything that Mr. Barnett thinks could be of concern than we'll just ask Mr. Brucker to leave.

MR. RUSSELL: Okay. And that would be fine. And so subject to that understanding and perhaps you could refine the pending question so that we're certain it doesn't call for confidential information. Subject to that understanding I'll lift the designation until it is reinvoked.

BY MR. O'CONNOR:

Q. My question, Mr. Barnett; was and so it is clear, I'm not looking for any formulas, I just want to know at any one time had Marsh developed it's own ink for use with the Trident printheads, Peizo Electric printheads?

[Tr. 10] A. Yes.

Q. And what motivated Marsh to develop its own ink?

MR. RUSSELL: Are you able to answer that without getting into potentially confidential information?

THE WITNESS: I'm trying to think if I can answer that.

MR. RUSSELL: Maybe you could rephrase the question so that we —

MR. O'CONNOR: Well, I would rather not. MR. RUSSELL: All right.

MR. O'CONNOR: If he as problem with answering that in front of Mr. Brucker we'll have Mr. Brucker leave.

BY MR. O'CONNOR:

Q. Does that answer your hesitation, sir? Do you want to talk to your attorney?

MR. RUSSELL: If you don't mind.

MR. O'CONNOR: Anytime you want to consult with your attorney, please.

MR. RUSSELL: Okay, good. I recognize there is a question pending so I hesitate to do it but if that's all right with you.

MR. O'CONNOR: That is fine. I have no objection.

(A SHORT BREAK WAS TAKEN.)

MR. O'CONNOR: Will you read the question back.

(AT WHICH TIME THE COURT REPORTER READ BACK THE LAST QUESTION.)

[Tr. 11] THE WITNESS: Basically it represented a business opportunity for Marsh.

BY MR. O'CONNOR:

Q. Can you give me a little more detail, why did it represent a business opportunity for Marsh?

A. Well, I guess two-fold issues: One, it allowed us to make an ink we felt performed better in the particular product.

Q. Better than the Trident ink?

A. I can't argue.

Q. Okay.

A. And it provided an ink that we felt we could manufacture for a cost less than we were paying Trident for the ink.

Q. Did you actually sell any of that ink?

A. Yes.

Q. Did you ever have any conversations with any representatives of Trident concerning Marsh's decision to sell it's [sic] own ink?

A. Yes.

Q. With whom did you have those discussions?

A. Elaine Pullen was one individual and I do not remember the name of the other individual.

Q. Do you recall what she said to you about that decision?

A. Basically that the contractual arrangements were such [Tr. 12] that we should have — we were to buy the ink from them and that was — the ink effectively belonged to them.

MR. RUSSELL: If I could just to make sure that both of the attorneys representing the parties agree with me, as an accommodation I'll allow Mr. Brucker to remain in they deposition but does anybody have an objection that that somehow waives confidentiality over this information?

MR. SIGALE: I have no objection at least to this line of questioning. If I do I will raise an objection.

MR. RUSSELL: So as to we're got going to get into issues of some sort of subject matter waiver because he has answered one question that then subsequent detail that he is not revealing at this point and it somehow becomes public information.

MR. O'CONNOR: Harvard Law School.

MR. SIGALE: I don't think that should be an issue.

MR. O'CONNOR: No, there is going to be no such waiver.

MR. RUSSELL: Good. Thank you.

BY MR. O'CONNOR:

Q. All right. So, the question was whether – strike that. Have you completed your answer?

A. Yes, sir.

Q. Okay. Did Elaine Pullen indicate to you whether there would be any repercussions to Marsh if Marsh continued to [Tr. 13] sell it's [sic] own ink?

A. I think Elaine made the point that she basically said that she felt that we needed to review the matter but she didn't specifically state repercussions, she just said you need to look at the matter. We think under this that you need to provide us with the ink and you should not be selling the ink.

Q. Did she — strike that. Did Trident ever refuse to

supply Marsh with printheads that Marsh had ordered from Trident?

MR. RUSSELL: Objection; vague. You may go ahead and answer the question.

BY MR. O'CONNOR:

Q. Do you understand the question?

A. Yeah, I understand the question. I guess the best way to answer the question is that Trident never refused to supply printheads.

Q. Okay. Did Trident ever threaten to enforce a license agreement that would prohibit Marsh from making it's [sic] own ink?

MR. RUSSELL: Objection; vague.

A. You know, threaten is a difficult word to define in a lot of cases. I mean, I think that's, you know, Trident reiterated the position that the contract was the contract and the agreement was whatever the factual agreement was. I mean, threaten is a difficult word for me to define.

Q. Did Elaine Pullen ever indicate that Trident would [Tr. 14] take steps to enforce the agreement?

A. Yes.

Q. And what did she say in that regard?

MR. RUSSELL: If you recall.

A. I specifically don't recall what she said at that particular time. I mean, basically she indicated that they would pursue whatever avenues were necessary to enforce the agreement.

BY MR. O'CONNOR:

Q. Did she ever indicate that Trident would sue Marsh to enforce the agreement?

MR. RUSSELL: You said indicate; do you mean did she say it?

BY MR. O'CONNOR:

Q. Did she say it?

A. I don't think she said that but I don't recall specifically.

Q. Okay. Based upon your knowledge do you have an approximation as to what percentage of the market for Trident ink for use in these Peizo Electric printheads was provided by Marsh?

MR. SIGALE: Objection; this calls for Attorney-Client, if you can answer — I mean, Attorneys Eyes Only. If you can answer.

MR. O'CONNOR: Do you want Barry out of the room?

* * *

[Tr. 25] BY MR. O'CONNOR:

Q. Did you have a concern about the issues raised by Ms.

Pullen concerning your agreement with Trident?

A. Yes.

Q. And what was your concern?

A. Well, nobody wants to go to court, you know, and if in their view that we were — that the agreement stood on it's [s'c] face and says that's basically that's what it said that I was concerned about how that would get resolved and that's a concern to the company, a business decision.

Q. Were you ever informed by Elaine Pullen that you had, Marsh had, no right to supply either directly or indirectly ink for use with Trident's printheads to customers anywhere in the world?

A. I don't recall.

Q. Elaine Pullen indicated that you that you did not have a right to sell your own ink for use in conjunction with Trident's products; is that correct?

A. Yes.

Q. Did she ever indicate to you that no one would have a right other than Trident to supply ink for use with Trident's products?

MR. RUSSELL: Did she ever say that to him?

MR. O'CONNOR: Yeah.

A. No.

[Tr. 26] BY MR. O'CONNOR:

Q. Did she ever discuss Independent Ink with you?

A. Generally.

Q. Do you recall what she said about Independent Ink?

A. No, I don't specifically recall.

Q. Okay. Do you recall whether she said anything to you concerning any actions that Trident intended to take against anyone other than possibly Marsh with regard to preventing the sale of ink other than Trident Ink for use with Trident Peizo Electric printheads?

A. I don't recall any specific statements that were made about that particular topic.

Q. Do you recall any general solutions that she may have made?

MR. RUSSELL: Objection to form.

A. I think generally, I mean Elaine's position was that the contract was the contract and that they would force whatever rights they had under the contract.

BY MR. O'CONNOR:

Q. If it hadn't — strike that. If Marsh had been able to go forward and market it's on [sic] ink do you have any reasonable belief as to what percent of it's [sic] own ink it would have been selling versus Trident Ink?

MR. SIGALE: Objection; assumes facts not in evidence.

MR. RUSSELL: Objection.

* * *

Exhibit 29

CONFIDENTIAL TRANSCRIPT
IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

INDEPENDENT INK, INC., a California corporation,	)	
	)	CASE NO. CV98-6686 NM (CWx)
Plaintiff,	)	
vs.	)	
TRIDENT, INC., believed to be a Connecticut corporation, and DOES 1 through 50, inclusive,	)	
Defendants.	)	

DEPOSITION OF ELAINE PULLEN

Newport Beach, California
Wednesday, August 23, 2000

Volume 2

CONFIDENTIAL

SHERYL HILTON MEYER,
CSR No. 2852
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CONFIDENTIAL TRANSCRIPT

* * *

[Tr. 227] A Yes, I do.

Q. I'll finish reading the sentence. "A price increase is planned for Trident ink in April." Do you recall what he was talking about there?

A Yes, I do. In order to encourage the use of the Marsh ink, they were planning to increase the price of the V300 ink so that there would be a greater price differential between them.

Q Between their ink and the Trident ink?

A Correct.

Q Why did they do that? Why were they going to do that? Do you know?

A That would be speculation. I mean it's not an unusual marketing policy to offer two alternative products and at different price levels.

Q Do you know if they ever did that?

A I believe they did, yes.

Q The next sentence says "Valerie again stated that ITW has considerable legal resources as compared to Trident." What was her purpose in saying that, if you know?

A Well, the timing of this meeting was actually, I think, just prior to the acquisition by ITW, and I think it was merely to remind Marsh that ITW had every intention of standing behind its rights.

[Tr. 228] Q As against Marsh?

A Or anybody who would be in breach of their agreements.

Q Well, in the particular context was -

A In this instance Marsh/Videojet.

Q And was Valerie employed by ITW at that time?

A Yes, she was.

Q Okay.

A Also just making sure this is correct that we have the resources also to protect our intellectual property rights.

Q It says "Valerie Lapinski, President Dynatech." Was Dynatech a wholly owned subsidiary of ITW at that time if you know?

A That's right. Valerie in the recent past was president of Dynatech, and I think she still holds that title in addition to having other companies that report to her.

Q Do you know, and if you don't, that's fine, but do you know whether ITW's assets are owned by Dynatech?

MR. SIGALE: objection to the extent it calls for a legal conclusion.

THE WITNESS: Okay.

[Tr. 229] MR. SIGALE: You can answer if you now.

THE WITNESS: To the best of my knowledge Dynatech is a part of ITW. I don't know exactly what corporate structure Dynatech is though, whether they've merged into some other part of ITW or not.

BY MR. O'CONNOR:

Q If you turn to the next page which is control, number 33024, and if you'd look at the first sentence, at the top it says, "Valerie also stated again that ITW does not allow contracts to be breached, and although our desire is to avoid a legal action, injunction and damages are the likely outcome." To what was she referring there?

A She was referring to the sales and license agreement between Videojet/Marsh and Trident.

Q Okay. And was she indicating that ITW would institute legal action unless this matter were resolved to ITW's satisfaction?

A Reluctantly that would have to be the result if we couldn't agree, but obviously this meeting was called because we wanted to avoid that.

Q And the next sentence says "ITW would also, if pressed, discontinue the supply of printheads to Videojet and Marsh." Do you recall her making that statement?

A That's what it says here.

[Tr. 230] Q But I'm asking if you recall if she did say that?

A Words to that effect. I wouldn't say I'm quoting her verbatim here.

Q But that was the essence of what she told them?

A Correct.

Q If you look at the third paragraph from the bottom —

A Uh-huh.

Q — the first sentence "I asked Tom how we should handle warranty claims for heads now that they may contain nonTrident ink." Why were you asking him that question?

A Because the use of ADI ink at the time was not approved by Trident. So it would be regarded as a nonTrident ink which voids the warranty.

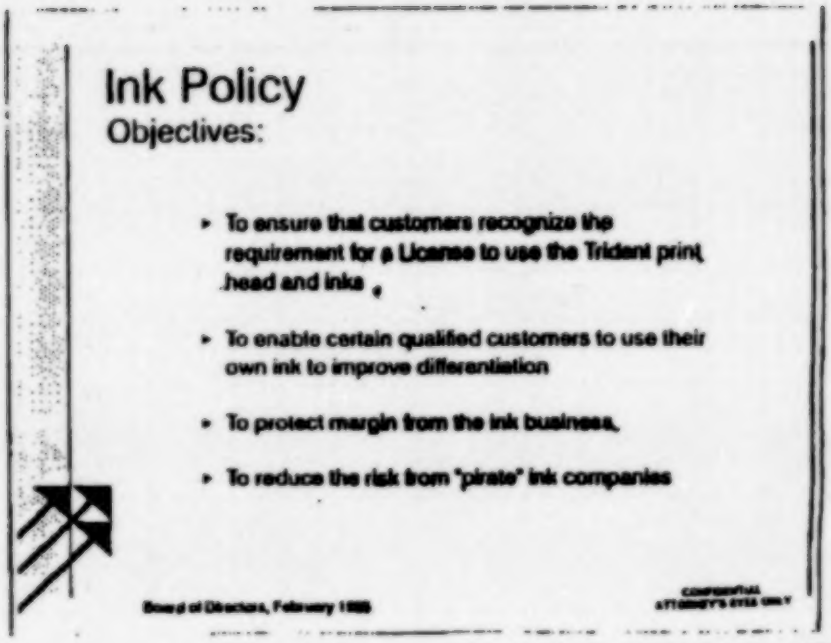
Q Well, did you tell him that or — strike that.

Just so you understand, I'm confused as to why you were asking him that. That sounds like you were telling him that.

A I asked him. As it says here, I asked him how he wants us to handle those heads.

Q Okay. Because you indicated to him that the heads were no longer covered by your warranty; is that right?

* * *



TRD 028719

CONFIDENTIAL

* * *

Exhibit 35

Actions: Strategy Against Ink Pirates
S. Liker
January 12, 1999

Summary:

Focus attack on four fronts simultaneously:

1) Legally through challenges of patent infringement involving the ink formulation and cap design.

   Actions:

   Obtain approximately ten bottles of G.C. ink from Marsh for analysis by independent lab Polymer Testing. We will then have the ink formula analyzed and evaluate raw aluminum coupons (equivalent to Ultrajet's earlier foot plate material) as well as orifice/chamber plate bonds when submerged in G.C., and V300 inks. In addition, ink from another ink pirate, Renewable Resources, will be included in the test. It is the goal of this study to provide analytical information from an independent source which can be used by Trident legal to file patent infringement while providing cause for requiring Trident ink in the Ultrajet. This information will also support the Marketing Front (see below). Target completion date:

   Responsibility:

2) Functionally through implementation of various proprietary/ protective bottle caps and proprietary labels and ink names.

A) Label Changes • Need to discuss with Marsh and other major OEMs potential to provide custom labels for their largest distributors. The goal is to confuse G. C. and force them to either risk miscibility problems (coincides with the introduction of ScanTrue at some sites which is not miscible with G.C. inks) or expend the effort and money to evaluate multiple ink formulations. Meetings will be held with Marsh and others to discuss.

Target completion date:
Responsible:

B) Bottle Cap Changes • By providing various keyed or reduced diameter bottle caps along with associated inserts reservoirs can be retrofitting to produce greater coupling challenge for G.C. inks in Trident-based systems. In addition, smart chips or electrically coupled caps and fittings will be investigated. Meetings will be held with Marsh and others to discuss.

Target completion date:
Responsible:

3) Marketing through literature comparing Trident's superior ink to graphics inferior knock-off. Supporting data and photos will cast "doubt" in end-user purchasers' minds regarding the risks associated with G.C.'s inks. Work with OEMs to tie maintenance and services with continued use of Trident inks.

The photos of clogged filters from Marsh along with photos of corrosion from Polymer Testing will be combined with Trident literature expounding on our ink quality in order to cast doubt in the mind of end-user purchasing department heads.

Target completion date:
Responsible:

4) Pricing through investigation of alternative methods of distribution which could reduce OEM inventory and ultimately reduce the end-user's cost making our ink more price competitive.

Work with Marsh to determine alternative methods of ink distribution and inventory which will ultimately reduce the end-user price and make the ink more competitive with G.C. ink. G.C. has the advantage of selling direct without the associated distributor markups.

Target completion date:
Responsible:

* * *

Exhibit 36

Inks — Trident's Lifeblood

Overview:

Trident manufactures inks for specific applications and printhead designs. The inks, as printheads, are sold through Trident Original Equipment Manufactuers (OEMs) to the end users. Since Trident has little, if any, contact with end users we rarely hear about pirates, or competitive products – until they become a problem.

Inks are the lifeblood of our industry. Once a system is sold and installed at an end user's site, the only source of continued revenue is the consumable –ink [sic].

Several companies have seen that profit smile, too. Consumables are profitable so the players in the field will increase if there is room to make a profit. Companies, as detailed below, can easily acquire genuine Trident inks and reverse engineer them. Once reverse engineered, duplicates can be made and sold. Pirate companies sell directly to the end users, eliminating the middle man (the Trident OEM), allowing for a cheaper end user price.

The Pirates:
V300 or VEX inks:

- Applied Technology Group – ATG
- Graphics Controls
- Independent Ink
- Renewable Resources

Jetwrite ink:

- ERT Ribbons
- Inkjet Solutions
- Bay Associates

HiDef ink:

- E-Link

Strategy:
Manufacture an ink that closely resembles Trident's genuine product and market that ink directly to the end user. End users will pay lower prices and seemingly receive the "Same" product they were paying full price for. End users will maintain a quiet profile since they don't want to void their warrantee with Trident's OEM. To keep appearances up with the OEM, the end user will place token orders with the OEM.

Target Markets:

- *Carton coding end users* — the largest family of Trident ink users, and the largest volume users
- *Check endorsing end users* — banks and clearing houses who are stingy and cheap.

Distribution Channels:

- Independent Reps
- Direct Marketing
- Mail
- Telemarketing

Production Capabilities:
Some companies have actual manufacturing locations while others are home brewed. Inks can be made in a basement or garage in 55 gallon drums. Once mixed can be dispensed into 125 or 500 ml bottles with ease. Large or special plants are not required for these products.

Trident's Strengths:

- Trident designs inks for specific applications and formulates the inks to work within specific printheads.

- Printheads are guaranteed when used with Trident genuine inks
- Trident's Bottle and LISS is patent protected thus any pirate attempting to duplicate the bottle or developing a substitute may be in patent violation.

Trident's Weaknesses:

- Patent protection has not been applied for or received for all Trident inks
- Trident uses numerous outside labs to design and/or manufacture inks
- End Users are paying a tremendous price (in their minds) for genuine inks
- End Users have no loyalty to Trident

Overcoming the Competition:

- Develop End User loyalty programs
- Reward end users when they bring pirates to the Trident's attention
- Act quickly when a new pirate is brought to Trident's attention

Effects on Trident:

Liters of Ink sold in FY 97

- 363 Liters from 14528 Jetwrite cartrideges [sic] $560/l
- 37003 Liters of VersaPrint inks - $214/1
- 6573 liters of HiDef inks $230/1

43939 total liters - average selling price $334/1

a 10% loss due to pirates equates to 4394 liters in one year or $1,467,596 in lost revenue.

Exhibit 37

FoxJet
an ITW Company

Subject: Third Party Ink Providers & Patent Infringements

Equipment: Series 7 Products

Over the past several years, many of our customers have reported third party ink activity within their accounts. Trident is taking a pro-active approach and has prepared the attached information for your use in this situation. In addition, ITW's legal counsel is working aggressively with Trident to take appropriate legal actions against patent infringements with great success. The following items are included in the package:

- A business letter from Elaine Pullen summarizing Trident's successful legal actions against ink suppliers infringing various Trident patents.
- "All Inks Are Not Created Equal" — Competitive Ink Comparisons
- "Trident Inks Make the Difference" Brochure
- Screen captures of an "Anti-Pirate" PowerPoint presentation prepared by Trident. The PowerPoint presentation is posted on FoxJet's web site - Distributor Resources section.

Review and discuss these competitive points with your sales, technical and customer service personnel. This material will ensure your company's success to maintain and defend its consumable business. All materials may be copied and distributed freely. Additional copies are available from FoxJet or visit our web site at www.foxjet.com.

Please feel free to contact us directly should you have any questions.

###

2016 E. Randol Milt Road, Suite 409 - Arlington, Texas 16011
Tel: 1-800-FQXJET4 or 817-795-6056 Fax: 817-795-7101

TRIDENT
AN ITW COMPANY

Mr. Kevin Brennan
Product Manager
Marconi Data Systems Inc.
707 East 'B' Street
P.O. Box 388
Belleville, IL 62222

May 2, 2000

Dear Kevin,

Over the past year, many of our OEM customers have reported the increased activity of third party inks being used with Trident's UltraJet™ imaging systems. Trident's Case Coding Team has prepared the attached package for your use relative to this activity. These materials should be helpful in situations where third party ink suppliers are concerned. The following items are included in the package:

- A business letter from Elaine Pullen summarizing Trident's successful legal actions against ink suppliers infringing various Trident patents.
- "All Inks Are not Created Equal" – Competitive Ink Comparisons
- A Position paper Regarding Piracy in the Ink Industry
- "Trident Inks Make the Difference" Brochure
- A Power Point Presentation with highlights for the above materials

As you will note in the watermark, the document titled Trident's Position Paper Regarding Piracy in the Ink Industry is for your internal use only. We encourage you to review and discuss these competitive points with your sales, technical

and customer service personnel. Please limit the reproduction circulation of this document. All other materials may be copied and distributed freely, especially the letter from Elaine detailing our legal successes with several of these third party copycats.

Please feel free to contact me with any questions you may have on this matter. I hope that you will find material helpful in maintaining and defending your consumables business in the marketplace.

Sincerely,

Brian Mahar
Business Director,
Worldwide Case Coding

Phone: 203-740-9333 ext 3066
Fax: 203-740-3527
E-Mail: BMAHAR@TRIDENT-ITW.COM

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TRIDENT

AN ITW COMPANY

Mr. Kevin Brennan
Product Manager
Marconi Data Systems Inc.
707 East 'B' Street
P.O. Box 388
Belleville, IL 62222

May 1, 2000

Dear Kevin,

Over the past several years we have seen the activities of third party ink providers become more visible and aggressive. Trident is very aware of the impact that this has had on your business and on ours. Not only has the sale of these unauthorized or third party inks impacted sales revenues, this unlicensed activity has also been shown to not work as effectively in Trident's Ultrajet printheads. The result is a negative impact on the performance reputation of both Trident and Marconi Data Systems Inc.

As you know, Trident's printheads, inks and ink delivery systems are protected by various patents. Many third party ink providers are infringing upon Trident's intellectual property rights. Trident has been working aggressively to take appropriate legal actions.

Trident invests critical resources in the research and development of innovative products to meek our customers' needs. Trident protects its investment by obtaining strong patent protection on inventions, and by vigorously enforcing patent rights against pirates in the ink industry. In this regard, Trident, who owns many patents covering Trident ink jet compositions and supply devices, has successfully asserted two patents against competitors who unwisely sought to disregard them.

In 1997, Trident sued Renewable Resources, Inc of Cookeville, Tennessee, and Applied Technology Group, Inc., of

Belleville, Illinois, for infringement of Tridents U.S. Patent Numbers 5,343,225 ("the 226 patent") and 5,154,761("the 761 patent"). In 1999, the U.S. District Court for the Southern District of Illinois issued an order stating that both of Trident's patents were valid, enforceable, and had been infringed by Renewable Resources. Renewable Resources was enjoined from any act infringing any claim of the patents in suit. The Court also issued an order against Applied Technologies Group, finding that the defendant had infringed the 226 patent. The Court also enjoined Applied Technologies Group from reconstructing, repairing, or refilling, or enabling, aiding or causing others to reconstruct, repair or refill, any container made or sold by Trident which bears a single use license notice under the 226 patent.

Trident also has sued Independent Ink, Inc. of Gardena, California, for infringement of the 226 and 761 patents. Trident is confident that it will be successful in that action, which is now pending in California.

I can assure you that Trident, with the assistance of our ITW legal counsel, will continue to aggressively pursue other players in the market who have disregarded any of our patents. Your assistance and patience during this process is very much appreciated.

Please feel free to pass this letter along to your distributors and end-users. It is important that all players be aware of our intent to protect our patent investments at all levels of use.

Sincerely,

Elaine Pullen
President

cc: Brian Mahar
Lisa Soltis – ITW Legal

1114 Federal Road, Brookfield, CT 06804-11140
Phone: 203-740-9333 Fax: 203-740-3527
www.trident-itw.com

TRIDENT'S POSITION PAPER REGARDING
PIRACY IN THE INK INDUSTRY

The following summarizes various legal, technical, and economic arguments to dissuade end users of Trident's products from purchasing me-too inks and refill bottles or kits from ink pirates. As explained below, end-users take substantial risks whenever any non-Trident ink is introduced into Trident's printhead systems.

- **Patent Infringement Risks:** Trident's printheads, inks (including V300), and ink delivery systems are protected by various patents. Trident has vigorously and successfully enforced its patent rights against pirates in the ink industry and continues to do so. Should any such non-Trident ink be found to be an infringement of one or more of Trident's patents, suppliers, as well as end users, of such non-Trident inks are liable for infringement under the United States patent laws. In addition, the Trident V300 ink container carries a label that states that it is "a single use only" licensed product and it is "not for refill". Therefore, any refilling of Trident's original spent ink container is unlicensed and also an infringement of Trident patent rights.

- **Use of Non-Trident Inks Voids Warranty:** It is important to note that, for end-users who are still under warranty, any printhead which is returned to Trident for refurbishment or repair may be voided if the damage to the printhead, including for example, delaminated CP/OP, conductive ink, corrosion, sediment, particle build-up, clogged filters, or clogged orifices, is due to usage of non-Trident inks.

- **All Inks Are Not Created Equal:** Trident has received numerous testimonials from Trident customers who have tried unsuccessfully to use non-Trident inks as a replacement for Trident's V-300 ink. Frequently, substitute inks contain components that are not compatible with the materials in Trident's printhead. The presence of such components, even in minute amounts, can produce disastrous results. As described in more detail below, repeated use of pirate inks may effect start-up, throw distance, print quality, ink bleed, and bar-code scan-ability.

  - **Long Term Printhead Effects:** Although pirate inks may appear to work in Trident's printhead in the short term, many have long term detrimental effects that result in more frequent repair and/or permanent printhead failure over time. This represents a hidden cost for end-users.

  - **Printhead Orifice Plate Delamination:** Trident uses a special bonding process during the production of its orifice plate configurations. All Trident inks are especially formulated to be compatible with this process. Pirate ink formulations do not go through Trident's rigorous testing and screening processes. Therefore, potential short-term and long-term effect of the orifice plate bond may cause delamination, print quality deterioration, and possible printhead failure.

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ATTORNEYS
EYES ONLY

Hidden Costs With Increased Wiping: Some pirate inks "wet" the orifice plate differently from Trident inks in that use of such non-Trident inks in a Trident printhead results in a more rapid microscopic build-up of unwanted ink around the orifice. Sustained and/or increased priming activity increases non-productive ink usage, which over time, may off-set any initial savings. In addition, as a result of increased priming activity, the user must wipe and/or prime printheads more frequently when using non-Trident inks.

High Speed Impact: Trident's ink technology is employed for imaging packages at a very high rate. Pirate inks, that are not developed with this goal in mind, may perform poorly at such high rates. Furthermore, Trident's system is designed to achieve a delicate and precise balance among the workings of the ink, ink chamber, orifice configuration, ink path, and electronic drive design in order to produce a high quality, scan-able image. For example, the viscosity, surface tension, and rheology of Trident inks play a critical role in the formation of each drop and its flight from the printhead onto the substrate. This is especially important when firing drops at very high rates. Pirate inks, not designed or tested with these objectives in mind, can perform differently and cause ink to improperly seep, or "weep", out of channels.

FOR REFERENCE ONLY

Filter Clogging: Trident inks are produced from very high standards of raw materials and using strict process controls. Pirate inks are not manufactured to the same standards. The result is an increased potential for printhead filters to clog and restrict the ink flow from the reservoir to the printhead, thus causing loss of print quality.

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Poor Bar-Code Quality: Certain non-Trident ink suppliers have formulated inks that produce lower Print Contrast Signals (PCS) when imaged onto corrugate boxes, thereby reducing the reliability of the imaged bar-code.

Ink Compatability: When various non-Trident inks are used with systems originally supplied with V-300, the compatability of these formulations may effect performance printhead life. Sometimes the reactions between noncompatible inks is immediate, and at other times, it is more subtle. Flushing of the system prior to ink change-over is clear evidence that these inks are not fully compatible and that performance may be effected.

ATTORNEYS EYES ONLY

Trident V300 Ink
"Not All Inks Are Created Equal"

Using non-Trident inks may initially provide lower ink pricing, but the risk of poor print quality, product failure, system downtime, increased maintenance, loss of warranty and the expense of replacing the printhead could significantly increase long term costs.

Customer Testimonials

Customer A, a large supplier to the Fresh Produce market, "We tried brand A ink and it worked well for a while until we noticed we had more down time and increased maintenance costs after 6 months."

Customer B, a paper goods manufacturing facility, "It's not worth the aggravation using the knock-off inks, our plant runs 24/7. We can't afford any downtime. Trident V300 ink keeps our printers on-line."

Customer C, a mid-size consumer products company, "Don't be fooled by the false promises of after-market ink manufacturers, we tried them and paid the price. After 3 months we noticed serious print quality degradation and found out all 32 printheads with this ink were contaminated and had to be sent back for cleaning and refurbishment. I almost lost my job because of it."

Here's Proof!

Test data below is from an independent outside agency comparing Trident V300 ink to the after-market inks.

Ink brand	Darkness (P.C.S. %)	Start-up	Orifice wetting	Tackiness of printhead face	Thru-put
Trident V300	80	passed	passed	passed	passed
Brand A	79	failed	failed	failed	passed
Brand B	74	passed	failed	failed	passed
Brand C	83	passed	passed	failed	passed

Notes:

1. Start-up: Failure indicates printhead requires an excessive amount of primes to get all channels to fire properly. This can cause the operator to waste an excessive amount of ink.
2. Orifice wetting: Failure indicates printhead face is wet after printing. This will attract dust which will cause poor print quality, increased intervention and premature failure of the printhead.
3. Tackiness of printhead face: Failure indicates printhead face is sticky after printing. This will attract dust which will cause poor print quality, increased intervention and premature failure of the printhead.

Protect your investment, Trident Inks Make the Difference!

(Continued)

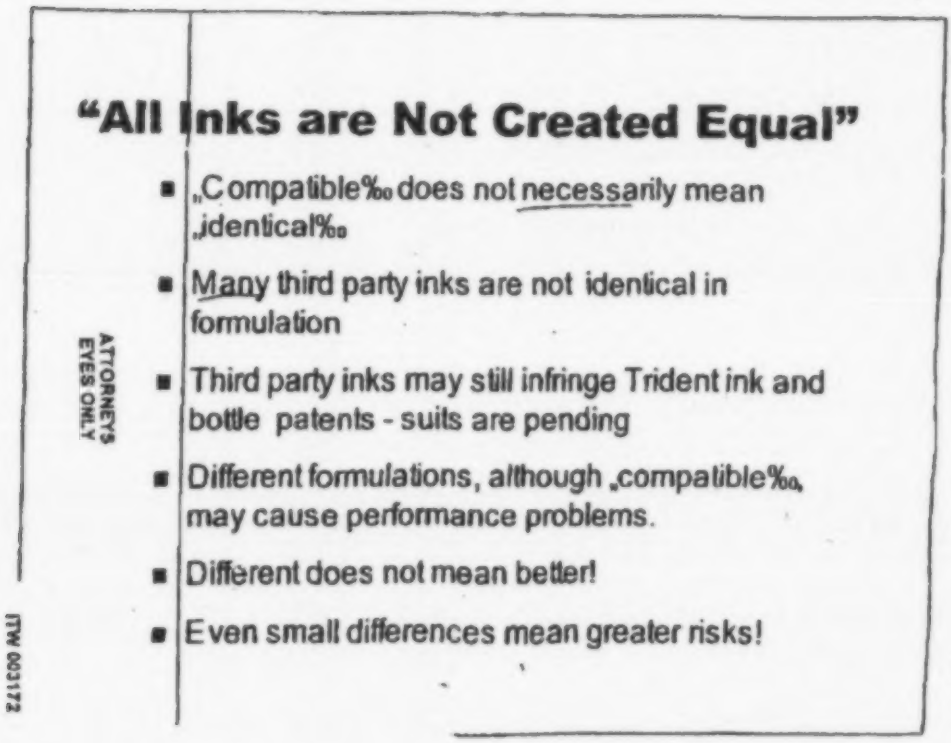
ATTORNEYS EYES ONLY

* * *

Patent infringement Risks: Trident's printheads, inks (including V300), and ink delivery systems are protected by various patents. Trident has vigorously and successfully enforced its patent rights against pirates in the ink industry and continues to do so. Should any such non-Trident ink be found to be an infringement of one or more of Trident's patents, suppliers, as well as end users, of such non-rident inks are liable for infringement under the United States patent laws. In addition, the Trident V300 ink container carries a label that states that it is "a single use only" licensed product and it is "not for refill". Therefore, any refilling of Trident's original spent ink container is unlicensed and also an infringement of Trident patent rights.

* * *

TRIDENT
AN ITW COMPANY
Third Party Inks
The Real Picture!
ATTORNEYS
EYES ONLY
ITW 003171


"All Inks are Not Created Equal"
„Compatible‰ does not necessarily mean „identical‰
Many third party inks are not identical in formulation
Third party inks may still infringe Trident ink and bottle patents - suits are pending
Different formulations, although „compatible‰, may cause performance problems.
Different does not mean better!
Even small differences mean greater risks!
ATTORNEYS EYES ONLY
ITW 003172

Risks of Using Non Approved Inks

- Corrosion
- Orifice clogging
- Reduced jetting frequenc
- Filter clogging
- Loss of warranty coverag
- Increased conductivity - e
  shorts - fire
- Orifice Plate delaminatio
- Increased maintenance c

ATTORNEYS EYES ONLY

ITW 003173

Up Front Savings - Back End Costs

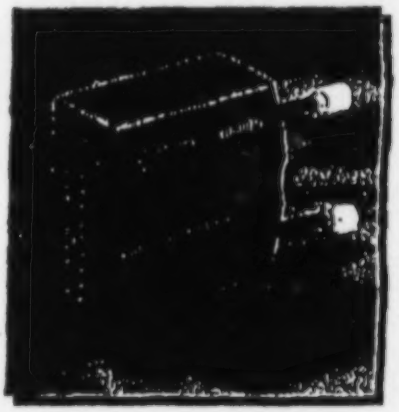
- Increased priming wastes ink
- Loss of warranty coverage
- Loss of system support
- Poor print quality or b
  readability affects en
  customers
- Total printhead failure
  - Short term
  - Long term

ATTORNEYS EYES ONLY

ITW 003174

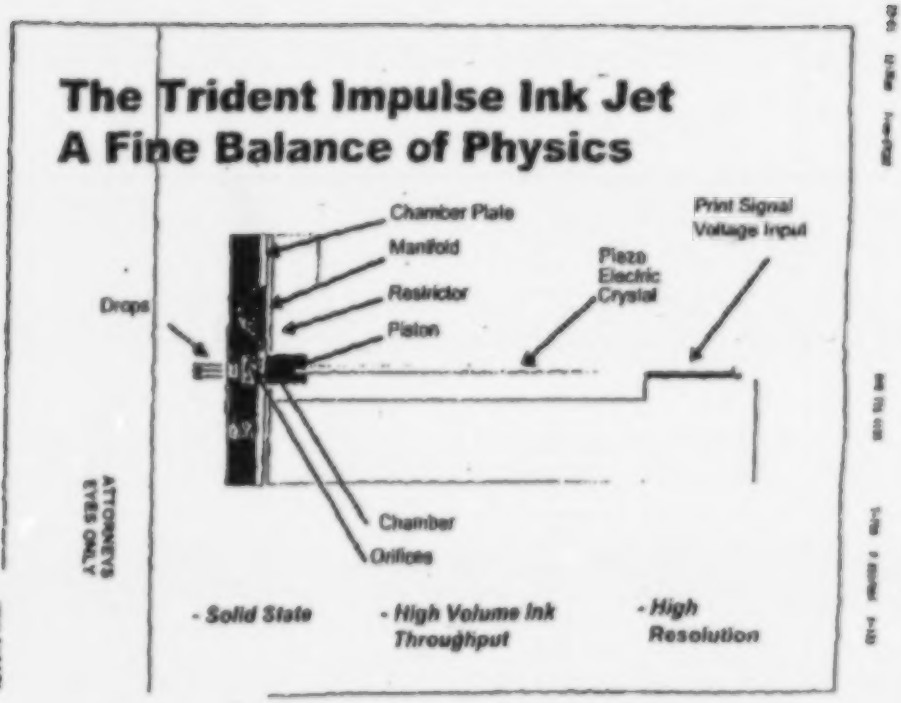
Why Are Inks Critical to Performance?

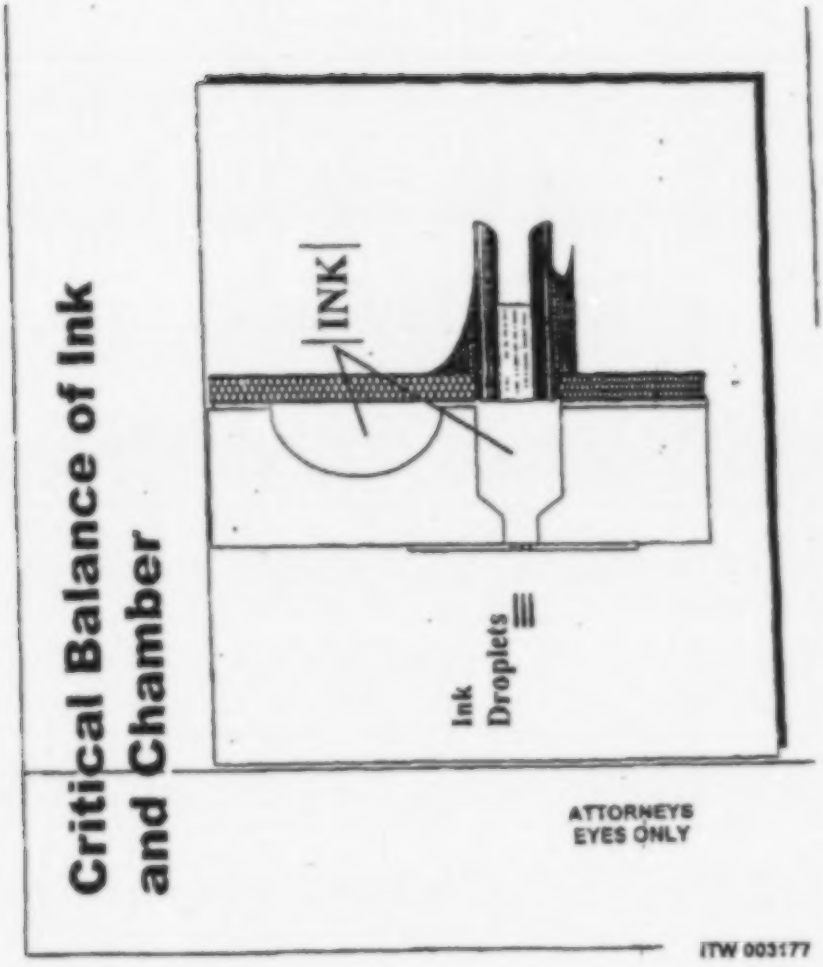
- Valveless Piezo technology depends on critical ink specifications
- Ultrajet printheads operation on a sensitive balance of inks, ink chamber, orifice size, surface tensions, and electronic drive program
- Even minor changes can affect this fine balance
- Non-Trident inks vary in:
  - Viscosity, Surface Tension,
  - Rheology and Cleanliness

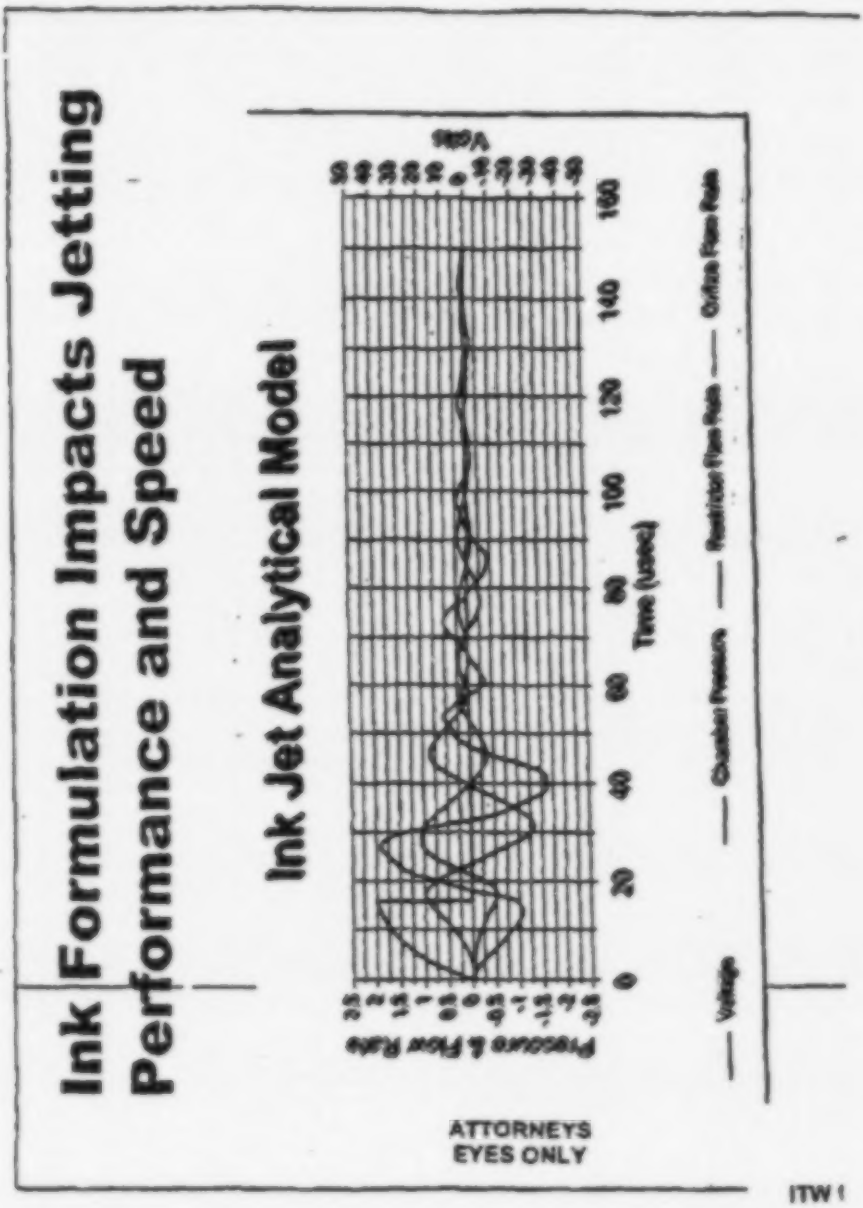


ATTORNEYS EYES ONLY

ITW 003175


The Trident Impulse Ink Jet
A Fine Balance of Physics
Chamber Plate
Manifold
Restrictor
Piston
Drops
Piezo Electric Crystal
Print Signal Voltage Input
Chamber
Orifices
- Solid State
- High Volume Ink Throughput
- High Resolution
ATTORNEYS EYES ONLY


Critical Balance of Ink and Chamber
INK
Ink Droplets
ATTORNEYS EYES ONLY
ITW 003177


Ink Formulation Impacts Jetting Performance and Speed
Ink Jet Analytical Model
Pressure & Flow Rate
Volts
Time (usec)
0
20
40
60
80
100
120
140
160
Voltage
Chamber Pressure
Restrictor Flow Rate
Orifice Flow Rate
ATTORNEYS EYES ONLY
ITW

Effects of incorrect formulations
Orifice Clogging
ked
Norr
ATTORNEYS
EYES ONLY
ITW 00

Other Ink Problems

- Corrosion
- Filter Clogging
- Contamination
- Electrical Shorts - Fires
- Shelf Life
- Short Term and Long Term
- Lower Print Contrast
- Shorter Throw Distance
- Surface Wetting

ATTORNEYS EYES ONLY

ITW 003180

Is the Short Term Gain
Worth the Long Term Pain?
ATTORNEYS
EYES ONLY
Use Original OEM Approved Ink
ITW 003181

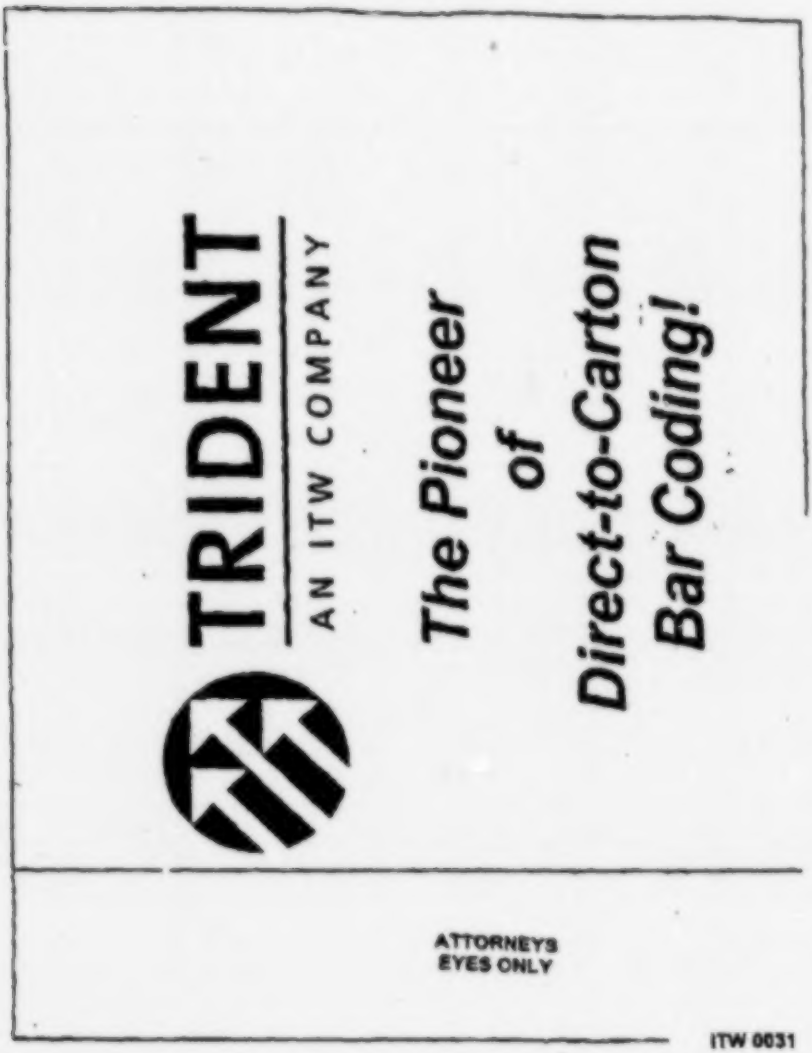

TRIDENT
AN ITW COMPANY
The Pioneer
of
Direct-to-Carton
Bar Coding!
ATTORNEYS
EYES ONLY
ITW 0031

Exhibit 38

UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA
(WESTERN DIVISION)

INDEPENDENT INK, INC., a California corporation Plaintiff vs. ILLINOIS TOOL WORKS, INC., A Delaware corporation; TRIDENT, INC., believed to be A Connecticut corporation, And DOES 1 through 50, Defendants.	CASE NO. CV98-6686 NM (CWx) **CERTIFIED COPY**

306(B)(6) DEPOSITION OF TRIDENT/ITW

Newport Beach, California

Wednesday, August 23, 2001

Volume 2

CONFIDENTIAL

Reported by:
LINDA L. SILVER
CSR No. 9915
JOB No. 586943

CONFIDENTIAL

* * *

[Tr. 308] having been first duly sworn, was examined and testified as follows:

THE WITNESS: I do.

EXAMINATION

BY MR. O'CONNOR:

Q State your name, please.

A My name is Elaine Pullen.

Q Ms. Pullen, I've taken your deposition before, so I'm not going to go through all of the preliminaries.

Would you please take a look at Exhibit 15297 entitled "Strategic Business Plan 1999."

MR SIGALE: Mr. O'Connor, you said the box was in order but I'm looking at the document that immediately follows the assessment of the opportunity of ink market and that's not the next document I have.

MR. O'CONNOR: Are you unable to locate that document?

MR. SIGALE: Can you tell me what the cover is.

MR. O'CONNOR: It should be right in there.

MR. SIGALE: Actually, it was right in front of me.

MR. O'CONNOR: This may seem tedious, but we're

* * *

[Tr. 353] BY MR. O'CONNOR:

Q You can answer that.

A I believe our measurements indicated that corrosion would occur.

Q But I'm asking you was there any evidence that a corrosion actually did occur, a corroded printhead?

A Not to my knowledge, we didn't have that.

Q If you look at 04139 —

A Hang on, I'm sorry, what was that a new stack again? Is that a new stack?

MR. O'CONNOR: You should have it. It's this one, Jordan.

MR. SIGALE: I've got it.

MR. O'CONNOR: I'm going to tell you what I think this is, you can tell me if I'm right. This is apparently a draft.

Q Was this a draft of the license agreement between Trident and — was it Data Processing (sic)? What was it the license — the ink patents that were licensed to them we just asked about?

MR. SIGALE: Data Products.

BY MR. O'CONNOR:

Q Data Products, that's it.

Is this a draft of the license between Trident and Data Products?

* * *

Exhibit 39

UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA
(Western Division)

INDEPENDENT INK, INC., a California corporation Plaintiff vs. ILLINOIS TOOL WORKS, INC., a Delaware corporation; TRIDENT, INC., believed to be A Connecticut corporation, And DOES 1 through 50, Defendants.	CASE NO. CV98-6686 NM (CWx) **CERTIFIED COPY**

306(B)(6) DEPOSITION OF TRIDENT/ITW

Newport Beach, California

Wednesday, May 9, 2001

Volume 1

CONFIDENTIAL

Reported by:
LINDA L. SILVER
CSR No. 9915
JOB No. 586943

STEVE LIKER,

* * *

[Tr. 24] having been first duly sworn, was examined and testified as follows

MS. WYTSMA: Mr. O'Connor, before you begin questioning, could we go ahead and put back on the record what categories Mr. Liker will be testifying to.

MR. O'CONNOR: Please.

MS. WYTSMA: Mr. Liker's being presented on categories No. 6, No. 7, No. 8, No. 10, No. 15, No. 16, No. 20, No. 24, No. 27 and No. 34.

MR. O'CONNOR: Okay. Good.

EXAMINATION

BY MR. O'CONNOR:

Q Mr. Liker, just so you understand what we're doing here, I understand you reviewed a number of documents to prepare for today; is that correct?

A Yes, correct.

Q And your counsel has provided us with list of those documents and they're being copied; so it the meantime, we're going to just try to test your recollection as best we can.

A Okay.

(Discussion off the record.)

* * *

[Tr. 26] BY MR. O'CONNOR:

Q Okay. Let's take a look at topic No. 6 if you have that in front of you. If you don't, I have an extra.

A This is not the right one.

MS. WYTSMA: That's not the proper notice. I have a notice I can look at with Mr. Liker.

BY MR. O'CONNOR:

Q Take a look at No. 6. Tell me when you finish reading that.

A Yes, I'm done.

Q Tell me what information you have as to whether or not ink manufactured and sold by Independent caused any problems with clogging or damage to any Trident equipment.

A I have no information that it did cause any damage; however, end users would not necessarily be outright and communicate that to Trident.

Q Okay. But you don't — you, personally, have no — or the company has no knowledge that any ink manufactured by Independent caused clogging problems or corrosion problems to any Trident printheads; is that correct?

A That's correct.

* * *

Exhibit 40

UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA
(Western Division)

INDEPENDENT INK, INC., a California corporation	)	
	)	CASE NO. CV98-6686 NM (CWx)
Plaintiff	)	
vs.	)	
ILLINOIS TOOL WORKS, INC., a Delaware corporation; TRIDENT, INC., believed to be A Connecticut corporation, And DOES 1 through 50,	)	
Defendants.	)	

306(B)(6) DEPOSITION OF TRIDENT/ITW

Newport Beach, California

Wednesday, May 9, 2001

Volume 1

CONFIDENTIAL

Reported by:
LINDA L. SILVER
CSR No. 9915
JOB No. 586943

* * *

[Tr. 6] Defendants Illinois Tool Works and Trident and Lisa Soltis also appearing on behalf of Illinois Tool Works.

THE VIDEOGRAPHER: The court reporter is Linda Silver.

Ms. Reporter, will you please swear in the witness.

AL STANCO,

having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. O'CONNOR:

Q State your name, please.

A Al Stanco.

Q Mr. Stanco, what is your occupation?

A I'm director of manufacturing of consumable products at Trident Incorporated.

Q And you're leaving that position, I believe?

A Correct.

Q When is your last day?

A Last day is Friday of this week, the 11th.

Q Where are you going then?

A Going to a company in North Haven called Advanced Products.

* * *

[Tr. 60] way or the other on that.

Q Okay. So what we know, then, is that they had a damaged printhead in which at one time they were using Trident ink in that printhead?

A Correct.

Q Then they switched to Graphic Controls ink?

A Yes.

Q And then they subsequently had a problem?

A That's correct.

Q Okay. Is it possible that the corrosion problem could have been caused partially by the Trident ink and then exacerbated by the Graphic Controls ink?

A That's always that possibility.

Q From your testing, there was no way of determining whether or not something like that occurred?

A Correct.

Q You do know of instances where there was damage – corrosion damage to printheads from Trident ink; is that correct?

A That's correct.

Q Do you know if it was the same ink that was used in the Sherwin-Williams printheads?

A It was the same — it was V300, which is the same ink.

Q Let's go to No. 20. Or had we just — we just

* * *

Exhibit 42

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

INDEPENDENT INK, INC., a California corporation	)	
	)	CASE NO. CV98-6686 NM (CWx)
Plaintiff	)	
vs.	)	
TRIDENT, INC., believed to be A Connecticut corporation, And DOES 1 through 50,	)	
Defendants.	)	

VOLUME I

RULE 30(B)(6) DEPOSITION OF INDEPENDENT INK, INC.

(TESTIMONY OF BARRY BRUCKER AND RANGANATHAN NK)

TUESDAY, JULY 25, 2000

LOS ANGELES, CALIFORNIA

CONFIDENTIAL TRANSCRIPT – ATTORNEYS' EYES ONLY

Reported by:
JOHN M. TAXTER
CSR No. 9915
JOB No. 18985SON/B

* * *

[Tr. 248] subject to obtaining these further documents.

MR. O'CONNOR: That's fine. And let's do it real quickly because we're almost out of time. Mr. Brucker wanted to add some things. You can just tell him, and then he can question you about them.

MR. SIGALE: Well, if he could please — we're videotaping, so we need to make a switch.

THE WITNESS: Can I get up?

MR. O'CONNOR: Yes, you can get up.

MR. SIGALE: Yes, please. Thank you very much.

THE WITNESS: All right.

EXAMINATION (RESUMED)

BY MR. SIGALE:

Q Mr. Brucker, I'd like to remind you that you're still under oath, or do you feel that we need to reswear you?

A No.

Q Okay. What would you like to say on the record?

A You had asked Ranga earlier about any direct conversations with other O.E.M.'s and with respect to the ability to use Trident – the ability [tr. 249] to use Independent Ink's inks for purchase.

Q Okay.

A Correct?

MR. O'CONNOR: Yes.

MR. SIGALE: Yes.

THE WITNESS: Okay. And he had mentioned a conversation with Diagraph and with a gentleman by the name of Juan Lopez. I wanted to also share that I had a personal visit

with both Juan Lopez, who is the vice president of Diagraph, as well as James Brigham, who is the president and owner of diagraph this was in late April, following the 761 Markman hearing. And we spoke about the opportunity of Independent Ink supplying inks for them for their high-resolution printers. And it was at that time that James Brigham had shared with me specifically that, by contract, he was unable to purchase from me.

In addition to that, I have had a conversation with two other O.E.M.'s. One was a guy by the name of Lloyd Torver or Tarver. He may currently be, but I think he at least was, the president of I.T.I. and prior to them being purchased by I.T.W., Illinois Tool Works, we also had a conversation, and he had indicated that he is [tr. 250] unable to buy from me. And then finally, in addition to that, I have had a conversation with Videojet Systems, otherwise known as Marconi – formerly known as Videojet Systems – both Mr. John Kirschner, the supply manager for Videojet – and also Craig Bauer, the president of Videojet – and both of those gentlemen but, more importantly – most importantly, Craig Bauer had indicated to me that he was unable to buy fluids from me because of this contract with Tri – with Trident as the manufacturer.

BY MR. SIGALE:

Q When did the conversations take place with Diagraph that you participated in?

A That was in late April. It was after the Markman hearing. So it must have been after the 17th of April.

Q With respect to I.T.I., when was that conversation?

A That must have been – I want to say maybe in January. It was prior, I know, to the acquisition of I.T.I. by I.T.W. Whatever it was, it was prior to it. And – and, subsequently, it was prior to the Markman hearing. And the conversation with Videojet was certainly post Markman hearing.

* * *

Exhibit 43

I, Ranganathan NK, declare as follows:

I have personal knowledge of the facts set forth in this declaration and if called upon can and will testify to them in a court of law. I received a voice mail message from Sandy Richmond of Hill Packaging dated December 9, 2000. The transcript of this voice mail is enclosed below. An audio tape copy of the original message is also available.

Transcript from Voice Mail message of Sandy Richmond of Hill Packaging (a Foxjet and ITI distributor) Note: Trident, Foxjet and ITI are divisions of ITW

Voice Mail Operator "Recorded December 9th at 1:33pm"

Sandy Richmond: "Good afternoon Ranga, this is Sandy Richmond of Hill Packaging returning your call. I'm glad that Frank Little is still referring me to you and I did in fact stop by Independent Ink's booth at the PMMI searching out what kind of relationship we could start but as I expressed to Dave Moore just before calling you we are not able to move forward with any sort of Independent Ink or outside a Trident Inc. basis and if we were to do that we would breach our contract with Foxjet so I know that there are a lot of things happening with ITI and ITW and so forth but that is one thing that is abundantly clear. You are welcome to follow up and give me a call if you like and discuss it further. That number is 603-898-4750 extension 222 and thank you for the call. Bye bye".

Voice Mail Operator: "Press one to play the next message...."

I declare under penalty of perjury that the accuracy of this transcript is true.

/s/Ranganathan NK
Ranganathan NK – January 3,2001

Exhibit 44

* * *

JETWRITE INK:

Ink is the life blood of Trident. Not only is it the biggest contributor to profit but it dictates the end use application for the ISS hardware. Currently Jetwrite™ ink is the mainstay for Trident. Jetwrite is ideal for imaging on porous materials. It does have application limitations in its tendency to "bleed" on very porous substrates. Improved formulas (Jetwrite E) has minimized gelling and debris failures. Jetwrite is available in two supply subsystems, 25 ml and 125 ml cartridges or 500 ml bottles for the LISS systems. We plan to offer inks in a bag-in-a-box container.

Trident has recently found that the degassing of ink is important to high speed applications. The packaging of the ink is critical to maintain this degassed condition before use. Trident plans to market this "Super" degassed Jetwrite at slightly premium price.

FASTDRI and HIDEF

FastDri " is targeted at the mailing and postal industry. The FD formula penetrates coated paper surfaces and provides faster drying. A newly revised design that operates at a lower temperature has been found to be far more user friendly. Special modifications to the ISS and Ink are necessary for ink/printhead compatibility. FD ink is presently only available in the Large Ink Supply (LISS) system.

The second ink, HiDef, has been developed with corrugated cartons in mind and will be key to sales in the Outer-Carton Coding market. The ability to print directly onto outer shipping containers eliminates the need for labels. Our high definition ink produces fine bar widths on very porous papers such as corrugated cartons. This ink is presently only sold with the LISS.

FUTURE INKS:

Several new inks are stated for sales during FY 1993. A non-porous ink for marking on non-absorbent materials will create large market opportunities. Fluorescent ink will be completed end available by the end of FY 1992. The primary application is for postal barcoding in Canada and Europe. The USPS also has internal applications for fluorescent ink.

ELECTRONICS:

Trident offers printed circuit boards, discrete electronic components, test equipment, power supplies and front generating software for use with the ISS units. The continued sale of the STD and PC boards are planned. No major introductions are anticipated for the electronics group. Some resources may be necessary if Trident desires to jointly market a complete system.

* * *

PRICE:

- The average selling price of ISS has been steadily increasing because we have been able to increase price on new models. Minimal pressure of the price of the ISS is expected. The 192/32 is priced 50% higher than our 32 channel configuration. Trident will increase its Average Selling Price by increasing prices whenever possible for new enhancements and products.

- Ink discounting for blanket orders was implemented in FY 1992. We expect customer pressure to reduce the price of ink in some markets. Trident also anticipates the erosion of ink margins as ink pirates are successful in beating our patents. Trident will make every effort to prevent or slow this competition down.

- Pricing of spare parts, electronics, and Starter/Evaluation Kits should remain stable. The price of the Starter/Evaluation Kit has been raised to accommodate additional components and services.

Exhibit 45

TRIDENT
INTERNATIONAL, INC.

STRATEGIC
BUSINESS PLAN

CONFIDENTIAL
ATTORNEY'S EYES ONLY

* * *

Corrugated Carton Coding

- Significant improvement in reliability (de-prime, dust) and ease of use
- ability to print all common bat code symbologies in specification
- Ability to print high quality graphics up to 4 inches wide
- Valve jet replacement
- Cost reduction of 50%

Non-Porous Parts and Packages

- Launch MicroCoder, PixelJet Liquid non-porous products
- Develop family of non-porous inks for various media
- Launch solid ink MicroCoder with improved adhesive ink
- Develop solid ink PixelJet
- Products and solutions for shrink wrap trays and non-porous cartons
- Cost reduction of 50%

Wide Format Graphics

- Roll to Roll and Flat systems
- Four color module and ink sets for:
  -Corrugated cartons
  -Signs, banners, billboards
  -Textiles
  -Product decoration
- High speed printhead drivers
- Ink management system
- Maintenance station
- $2/channel technology

1.7 ***Critical Success Factors***

- Emphasis on end-users as the ultimate customer

- Defend the ink business from pirates
- Make timely product development a company-wide commitment
- Aggressively reduce product costs
- Fully exploit the non-porous opportunity
- Maximize added-value from the wide format opportunity
- Increase the reliability and ease of use of Trident's impulse ink jet technology
- Create a world class manufacturing operation
- Improve Trident's ability to attract and retain high quality personnel
- Develop wider array, inert, low cost technology
- Obtain access to leading edge ink technology

* * *

Exhibit 46

* * *

Elaine Mention AT&T award. M/P desire to [illegible] Trident [illegible] speed thru [illegible]

QUARTERLY BOARD OF DIRECTORS MEETING

Trident, Inc.

Thursday, May 18, 1995

Main Conference Room, Building B

Brookfield, Connecticut

Get Agenda/Schedule Viewpoint

Trident Board of Directors Members and Observers:
Robert Anderson - Brean Murray Foster Securities
Russell Greenberg - Chatfield, Dean
David Hundt - Trident, Inc.
Bruce Johnston - TA Associates
Norman L. Norris - WWKM&Norris
Elaine Pullen - Trident, Inc.
Jim Roche - Greyrock Capital Group
R.Hugh Van Brimer - Trident, Inc.

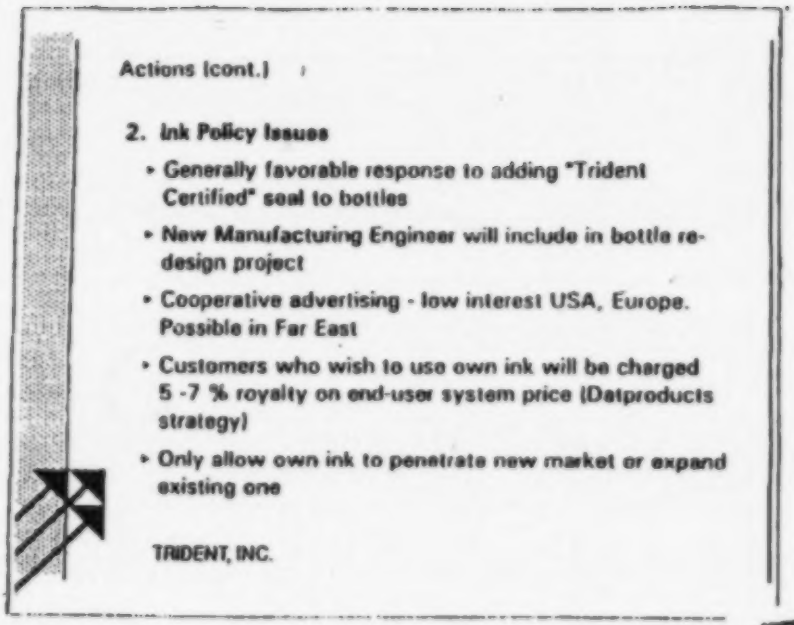
CONFIDENTIAL
ATTORNEY'S EYES ONLY

"CONFIDENTIAL"

EX. 46

TRID 028834

Ap. 677-1


Actions (cont.)
2. Ink Policy Issues
• Generally favorable response to adding "Trident Certified" seal to bottles
• New Manufacturing Engineer will include in bottle re-design project
• Cooperative advertising - low interest USA, Europe. Possible in Far East
• Customers who wish to use own ink will be charged 5 -7 % royalty on end-user system price (Datproducts strategy)
• Only allow own ink to penetrate new market or expand existing one
TRIDENT, INC.

* * *

Exhibit 47

EX. 47

Ap. 480

CONFIDENTIAL
ATTORNEY'S EYES ONLY

TRD 029208

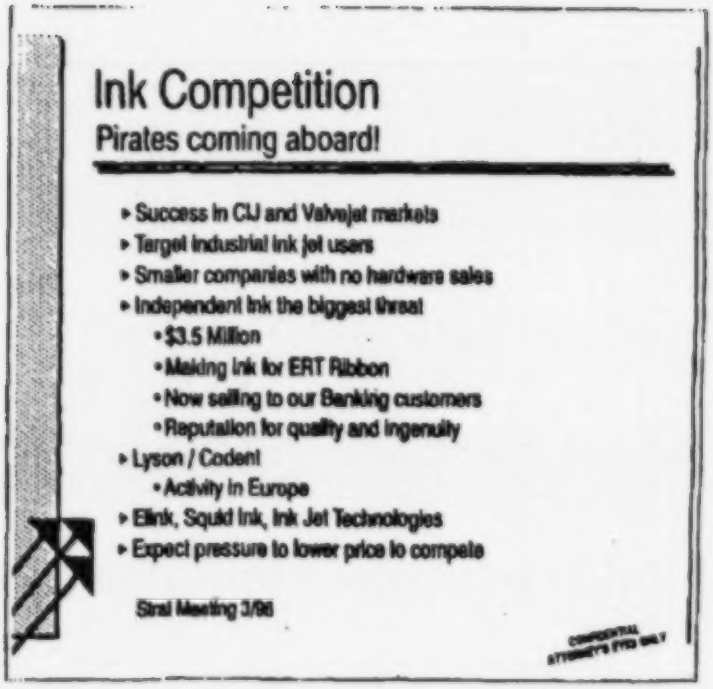

Ink Competition
Pirates coming aboard!
• Success in CIJ and Valvejet markets
• Target industrial ink jet users
• Smaller companies with no hardware sales
• Independent Ink the biggest threat
• $3.5 Million
• Making Ink for ERT Ribbon
• Now selling to our Banking customers
• Reputation for quality and ingenuity
• Lyson / Codent
• Activity in Europe
• Elink, Squid Ink, Ink Jet Technologies
• Expect pressure to lower price to compete
Strat Meeting 3/96
CONFIDENTIAL
ATTORNEY'S EYES ONLY

Exhibit 48

Trident, Inc.

QUARTERLY BOARD OF DIRECTORS MEETING

Thursday, Otober 27, 1994

Boston, Massachusetts

Trident Board of Directors Members and Observers:
Robert Anderson – Brean Murray Foster Securities
Russell Greenberg – Chatfield, Dean
Kathryn Guimard – Greyrock Capital Group
David Hundt – Trident, Inc.
Bruce Johnston – TA Associates
William Keresey – The Trine Group
Normal L. Norris – WWKM&Norris
Elaine Pullen – Trident, Inc.
R. Hugh Van Brimer – Tident, Inc.

* * *

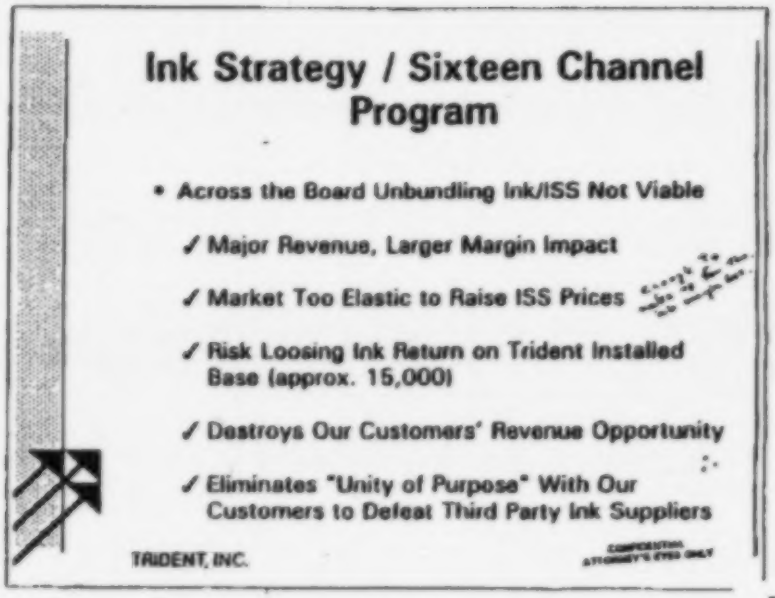
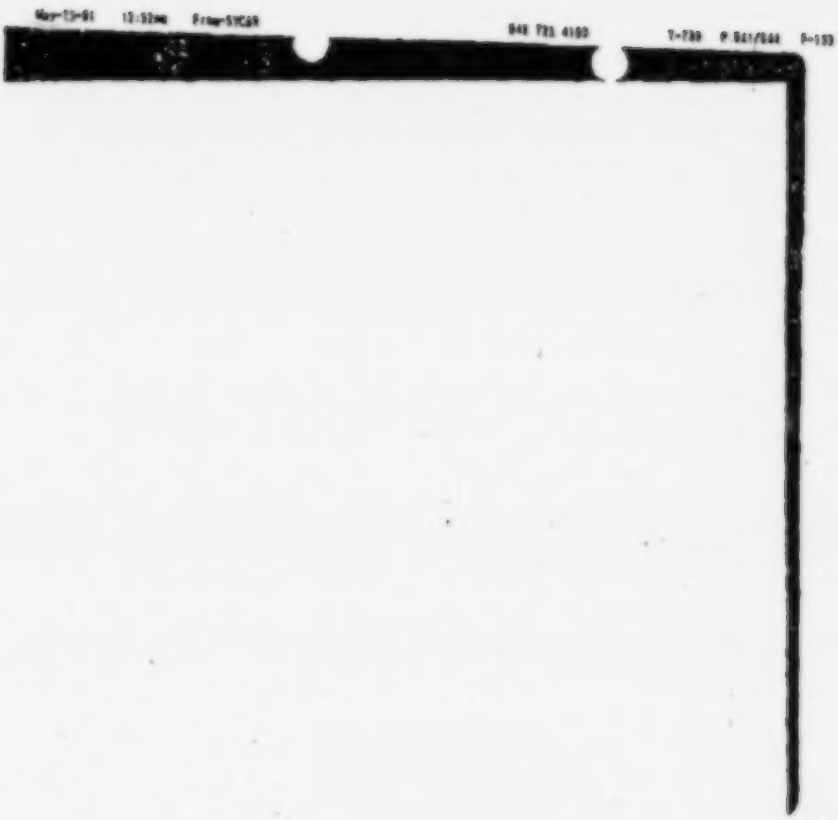

Ink Strategy / Sixteen Channel Program
• Across the Board Unbundling Ink/ISS Not Viable
✓ Major Revenue, Larger Margin Impact
✓ Market Too Elastic to Raise ISS Prices
✓ Risk Loosing Ink Return on Trident Installed Base (approx. 15,000)
✓ Destroys Our Customers' Revenue Opportunity
✓ Eliminates "Unity of Purpose" With Our Customers to Defeat Third Party Ink Suppliers
TRIDENT, INC.

Exhibit 49



Dell Marketing Systems
Applied Technologies

EX. 49

ITW-D02758

From: Elaine Pullen

To: BRIANM
Date: 5/26/99 7:19 pm
Subject: Dell Marking Systems, Inc. Reply

Thanks – hopefully we'll have put AT out of business soon.

Exhibit 51

Law Offices
Woodcock Washburn Kurtz Mackiewicz & Norris
A Partnership Including Professional Corporations
One Liberty Place – 46th Floor
Philadelphia, PA 19103
(215) 568-3100

April 6, 1992

VIA FEDERAL EXPRESS

Eric Thomason, President
ERT Ribbons Company
8101 Cameron Road, No. 103
Austin, TX 78753

Re: Trident, Inc.
Our File: TRID-0010

Dear Mr. Thomason:

My client, Trident, Inc. has asked that I write concerning your solicitation of Trident customers to purchase ink which you describe as intended for use in Trident printheads.

We have recently obtained a sample of the ink which your company is offering for use with the Trident printheads. At the present time, it appears that the sample of your ink which is presently under evaluation may infringe claims of one or more patents in the Trident parent portfolio. We will be in further touch with you in this regard as soon as the evaluation is completed.

In the meantime, please be advised that the standard agreement with Trident's customers requires that all customers purchase all of their ink requirements from Trident. Any solicitation of Trident customers to buy your company's ink

will therefore be treated as a tortious interference with Trident's contractual rights and Trident will take all necessary legal steps to prevent such tortious interference. You should, therefore, cease and desist from any further solicitation of Trident's customers.

Very truly yours,
/s/ Normal L. Norris
Normal L. Norris

purchase of a dominant "tying" product, resulting in economic harm to competition in the "tied" market.[9]

[Tie-ins] serve hardly any purpose beyond suppression of competition[10] [by denying] competitors free access to the market for the tied product, not because the party imposing the tying requirement has a better product or a lower price, but because of his power or leverage in another market.[11]

There is general agreement in the cases and among commentators that the fundamental restraint against which the tying proscription is meant to guard is the use of power over one product to attain power over another, or otherwise to distort the freedom of trade and competition in the second product. The distortion injures the buyers of the second product, who because of their preference for the seller's brand of the first are artificially forced to make a less than optimal choice in the second. And even if the customer is indifferent among brands of the second product and therefore loses nothing by agreeing to use the seller's brand of the second in order to get his brand of the first, such tying agreements may work significant restraints on competition in the tied product. The tying seller may be working toward a monopoly position in the tied market and, even if he is not, the practice of tying forecloses other sellers of the tied product and makes it more difficult for new firms to enter that market. They must be prepared not only to match existing sellers of the tied product in price and quality, but to offset the attraction of the tying product itself. Even if this is possible through simultaneous entry into production of the tying product, entry into both markets is significantly more expensive than simple entry into the tied market, and shifting buying habits in the tied product is considerably more cumbersome and less responsive to variations in competitive offers.[12]

[It is this] foreclosure of competition which offends the antitrust statutes.[13]

We shall see in Chapter 17B that many litigated tie-ins foreclosed too little of the tied market to impair the vitality of competition there. Nevertheless, it is the fear of market-altering foreclosure that underlies the law of tying.

1700d2. "Alien" intrusion and "unfair" advantage? The language just quoted both highlights the key concern for competitive vitality

9. *Times-Picayune v. United States*, 345 U.S. 594, 614 (1953).
10. *Standard Oil Co. (Cal.) v. United States*, 337 U.S. 293, 305-306 (1949).
11. *Northern Pacific Ry. v. United States*, 356 U.S. 1, 6 (1958).
12. *Fortner Enters. v. United States Steel Corp.* 394 U.S. 495, 512-513 (1969) (White, J., dissenting, though not on these points).
13. *David R. McGeorge Car Co. v. Leyland Motor Sales*, 504 F.2d 52, 57 (4th Cir. 1974), cert. denied, 420 U.S. 992 (1975).

* * *

ITI Imaging Technology Incorporated

Sales Notes

- All orders to ITI at or above $10,000 require a deposit of 1/3 of the net total amount with order. Balance due net 30 days.
- Payment terms far orders less than $10,000 are net 30 days.
- For prompt payment of invoices within 10 days of date of invoice, we will give a 1% discount on the 2/3 balance due (or the full amount if the original was under $10,000).
- We are required by our license from Trident, Inc. to use only Trident inks with any Trident printhead being sold. If incompatible inks have been mixed or "unqualified" (i.e. non-Trident supplied) inks have been used, this violation voids all printhead warranties.

* * *

* * *

Corrugated Carton Coding

- Significant improvement in reliability (de-prime, dust) and ease of use
- Ability to print all common bar code symbologies in specification
- Ability to print high quality graphics up to 4 inches wide
- Valve jet, replacement
- Cost reduction of 50%

Non-Porous Parts and Packages

- Launch MicroCoder, PixelJet Liquid non-porous products
- Develop family of non-porous inks for various media
- Launch solid ink MicroCoder with improved adhesive ink
- Develop solid ink PixelJet
- Products and solutions for shrink wrap trays and non-porous cartons
- Cost reduction of 50%

Wide Format Graphics

- Roll to Roll and Flu systems
- Four color module and ink sets for.
  -Corrugated cartons
  -Signs, banners, billboards
  -Textiles
  -Product decoration
- High speed printhead drivers
- Ink management system
- Maintenance station
- $2/channel technology

1.7 Critical Success Factors

- Emphasis on end-users as the ultimate customer
- Defend the ink business from pirates
- Make timely product development a company-wide commitment
- Aggressively reduce product costs
- Fully exploit the non-porous opportunity
- Maximize added-value from the wide format opportunity
- Increase the reliability and ease of use of Trident's impulse ink jet technology
- Create a world class manufacturing operation
- Improve Trident's ability to attract and retain high quality personnel
- Develop wider array, inert, low cost technology
- Obtain access to leading edge ink technology

* * *

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
(Western Division)

INDEPENDENT INK, INC., a California corporation Plaintiff vs. ILLINOIS TOOL WORKS, INC., a Delaware corporation, TRIDENT, Inc., a Connecticut Corporation, and DOES 1 Through 50 Defendants.	CASE NO. CV98-6686 NM (CWx)

30(b)(6) DEPOSITION OF TRIDENT /ITW
NEWPORT BEACH, California
Wednesday, May 9, 2001
Volume 1

Reported by:
LINDA L. SILVER
CSR No. 9915
JOB No. 586943

CONFIDENTIAL – ATTORNEYS EYES ONLY

* * *

[Tr. 151] for speculation.

BY MR. O'CONNOR:

Q Do you know where it originated?

A No, I don't.

Q Is this a folder or something that says "Pirate Inks"? Do you know what that is?

A It appears to be.

A And then there is a 352, the next page says, "Eda Wilson's Office, Independent Ink."

A Right.

Q Do you know what that is?

A That's probably where the file was taken from.

Q Then the next page says "spectral profile," is that of Independent Ink?

A That's correct.

Q That's of the chromatograph or mass spectrometry?

A Right. Exactly.

Q It appears that they're basically identical?

A Exactly.

Q The next is "The Chromatogram."

A That's correct.

Q I believe it indicates, also, that they're identical.

A Um-hum.

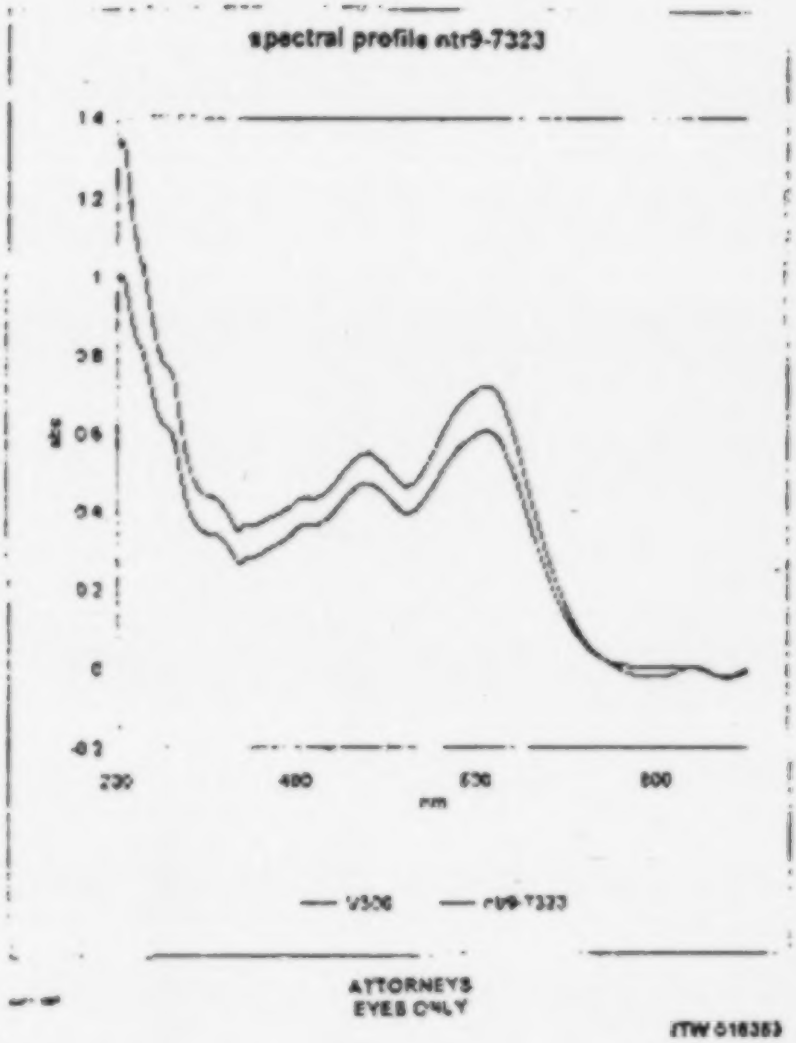
* * *

ATTORNEYS
EYES ONLY

Eda Wilson's
OFFICE
Independent Jak

ATTORNEYS
EYES ONLY

ITW 018382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1.2
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ATTORNEYS
EYES ONLY

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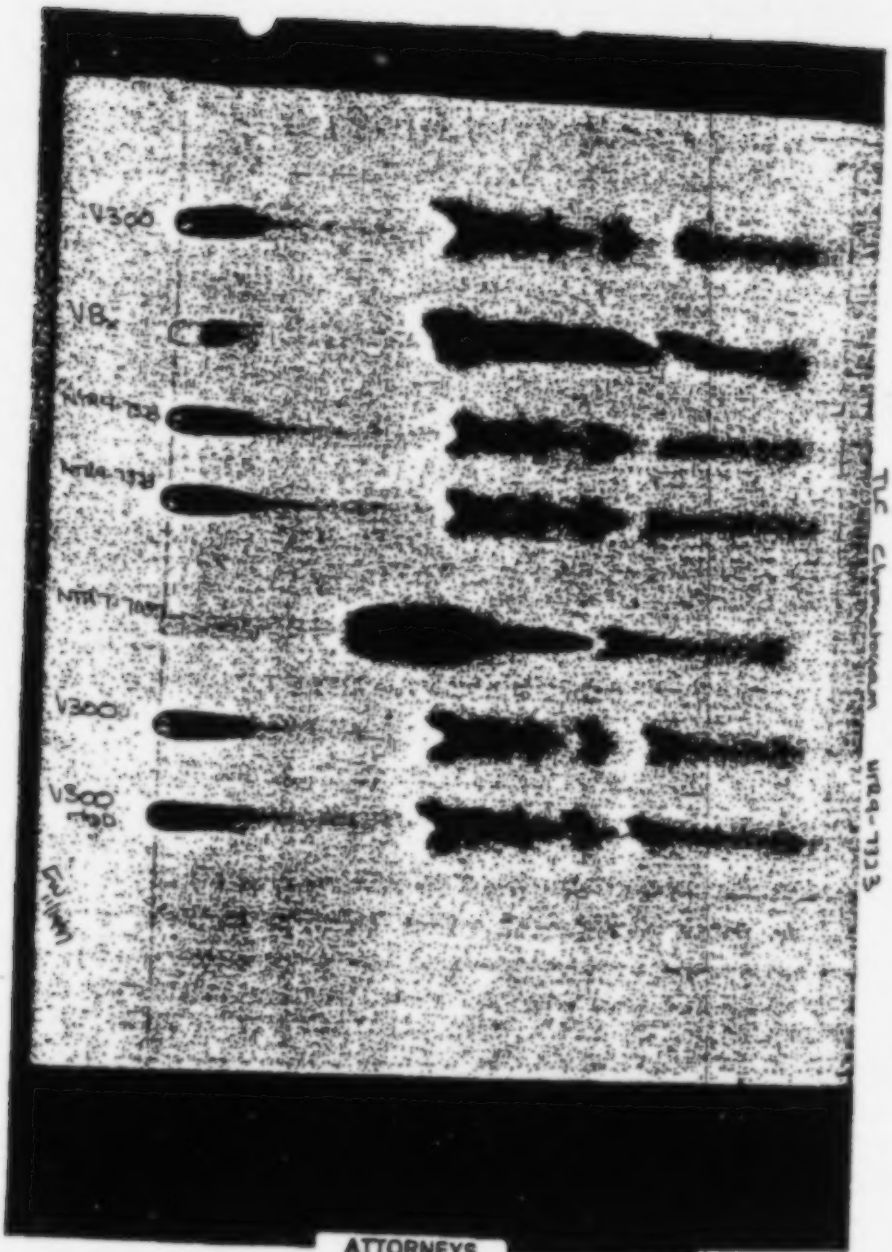

ATTORNEYS
EYES ONLY

ITW 018354

Exhibit 30

CRS Marking Systems

Wednesday, January 20, 1999

Mary Broers
Tree Top
P.O. Box O
200 Titchenal Way
Cashmere, WA 98815

Dear Mary:

Thank you for the opportunity to earn your hi-resolution ink business through competitive pricing and outstanding service.

As I explained to you on the phone, Marsh has finally taken the step this month to break away from Trident Industries monopoly on hi-resolution ink and make Marsh hi-resolution AD1 ink. By doing this, Marsh can control the manufacturing of the ink so that the ink meets Marsh's specifications to provide better performance and printhead service life. From tests done in the field with actual customers using Marsh AD1 ink over the past six months, Mash [sic] has exceeded the performance of the current Trident ink in both printhead maintenance and ink mileage. The other benefit is that we can bring it to the customer at a reduced price from current levels.

I also explained to you on the phone that there was legal action being taken in the refilling of the Trident bottles. The bottles do state that they are "not to be refilled, and that is due to a patent that is placed on that bottle. The legal action is not coming from Marsh, but from Trident Industries. The liability also does not fall on the competitor either like I explained to you on the phone. It will be directed at the customer that has purchased the bottles and is having them refilled. Marsh saw this problem coming months ago and does not want to put the distributor or themselves in the position of being ink police for Trident Industries. Marsh has

taken the step of breaking their ties with Trident Industries to produce and distribute their own ink as of February 1, 1999.

Marsh and CRS Marking Systems are taking the approach of providing you this ink pricing and also printhead maintenance in the same agreement. CRS Marking Systems has just invested the time and money to have our Portland technician go through extensive training at Marsh to be able to repair these highly sophisticated and delicate printheads.

CRS Marking Systems and Marsh are committed to keeping ink and service competitive. To do that, we have to respond to the customer's wishes and be fair and reasonable to all concerned. Value added service is paramount in today's business environment and we hope that we have accomplished that with this letter. If you agree with the pricing set forth by this letter, then I will have formal papers dawn up for your signing.

As always, if you have any questions about this agreement or the items within this agreement, please do not hesitate to give me a call.

Sincerely.

/S/SCOTT ANDERSON
Scott Anderson
CRS Marking Systems

Cc: Bill Brophy – CRS Service Tech
Dwaine Branson – CRS Order Desk
Carrie Calvert – Marsh Company

(16)

Supreme Court, U.S.
FILED
AUG 4 - 2005
OFFICE OF THE CLERK

No. 04-1329

In the Supreme Court of the United States

ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.,
Petitioners,

v.

INDEPENDENT INK, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF FOR THE PETITIONERS

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QUESTION PRESENTED

Whether, in an action under Section 1 of the Sherman Act, 15 U.S.C. § 1, alleging that the defendant engaged in unlawful tying by conditioning a patent license on the licensee's purchase of a non-patented good, the plaintiff must prove as part of its affirmative case that the defendant possessed market power in the relevant market for the tying product, or whether market power instead is presumed based solely on the existence of a patent on the invention embodied in the tying product.

RULE 29.6 STATEMENT AND PARTIES TO THE PROCEEDING

Pursuant to this Court's Rule 29.6, petitioners state that Trident, Inc. was acquired by Illinois Tool Works Inc. ("ITW") on February 17, 1999. Thereafter, Trident, Inc. became a division of ITW, and is no longer a separate corporate entity. Illinois Tool Works Inc. is a publicly held corporation.

The parties to the proceeding in the court of appeals were Illinois Tool Works Inc., Trident, Inc., and Independent Ink, Inc.

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BRIEF FOR THE PETITIONERS

OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-19a) is reported at 396 F.3d 1342. The order of the district court granting petitioners' motion for summary judgment on the antitrust claims (Pet. App. 20a-56a) is reported at 210 F. Supp. 2d 1155. The order of the district court entering final judgment (Pet. App. 57a) is unreported.

JURISDICTION

The judgment of the court of appeals was entered on January 25, 2005. The petition for a writ of certiorari was filed on April 4, 2005, and was granted on June 20, 2005. The jurisdiction of this Court rests on 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

Section 1 of the Sherman Act (15 U.S.C. § 1) provides in pertinent part: "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce * * * is declared to be illegal."

STATEMENT

A tying arrangement is "'an agreement by a party to sell one product [the tying product] but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier.'" *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 462 (1992) (citation omitted). A plaintiff alleging that a defendant has engaged in tying in violation of Section 1 of

the Sherman Act (15 U.S.C. § 1) must prove, among other things, that the defendant exercised "'appreciable economic power' in the tying product market." *Ibid.*

In *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), the Court stated that "[t]he requisite economic power is presumed when the tying product is patented or copyrighted." *Id.* at 45-46 (citing *International Salt Co. v. United States*, 332 U.S. 392 (1947), and *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948)).

The question presented in this case is whether the Court should overturn the market power presumption announced in *Loew's*. That presumption conflicts sharply with the economic reasoning underlying the Court's contemporary tying decisions, and has been rejected by the federal antitrust enforcement agencies and the overwhelming weight of scholarly opinion.

Indeed, the court below recognized that "[later Supreme Court tying] cases not involving patents or copyrights" require proof of market power "notably more onerous than the [market power requirement in prior tying cases]." Pet. App. 6a-7a. It also observed that the presumption "has been subject to heavy criticism," including by Members of this Court (*id.* at 13a-14a). It nevertheless concluded that, as a lower court, it was bound to follow *Loew's* and *International Salt* even if those precedents "contain[ed] many 'infirmities' and rest[ed] upon 'wobbly, moth-eaten foundations.'" *Ibid.* (citing *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997)).

This Court, however, is not so constrained. It should overturn the market power presumption and require that a plaintiff in a patent tying case — like plaintiffs in any other tying case — prove as part of its affirmative case

that the defendant actually possesses the requisite market power.

A. Trident's Business

Trident, Inc. ("Trident"), a division of Illinois Tool Works Inc. ("ITW"), designs, manufactures and markets printing systems made up of industrial piezoelectric impulse ink jet printheads and inks. It sells the systems to original equipment manufacturers ("OEMs") that incorporate them into printers for industrial applications — for example, bar coding and other carton labeling. Those printers, in turn, form a small part of the packaging assembly lines that the OEMs sell to their customers. See Pet. App. 20a.

Trident is the owner of, or the exclusive licensee under, a number of patents covering piezoelectric printing technologies. Even so, Trident competes with at least two other firms, Markem and Xaar, that also have developed their own patented ink jet printhead systems capable of printing barcodes on packaging material. Pet. App. 22a. In addition, all three manufacturers face competition from the method of attaching barcodes to packages with pre-printed labels, which "may even have advantages over [piezoelectric] printers in terms of quality and reliability." *Id.* at 22a, 36a.

Trident holds the patent involved in this litigation, U.S. Patent No. 5,343,226 ("the '226 patent") and other related patents and patent applications on an impulse ink jet system comprising the printhead, the bottle containing the printer ink, and the connection between them. Trident licenses its OEM customers under the '226 patent and its other related patents to "'manufacture, use and sell equipment employing and including ink jet

printing devices supplied by Trident when used in combination with ink and ink supply systems supplied by Trident.'" *Id.* at 21a. Pursuant to this license requirement, the OEM customers must buy the Trident inks in patented containers along with the printheads for which they were designed and incorporate them into the units they sell to their end-user customers. The end-users can buy additional containers of ink from the OEMs, subject to a single-use license under the '226 patent. The single-use license prohibits refilling the containers. *Ibid.*

However, neither the '226 patent nor the single-use license prevents end-users from purchasing containers of ink from third-party manufacturers. Several firms have sought to design and sell containers of ink that do not infringe the '226 patent. Pet. App. 21a-22a. Some of these firms also refill Trident's containers with their own ink notwithstanding the single-use license. One such firm is respondent Independent Ink, Inc. ("Independent Ink"). *Id.* at 21a.

B. The District Court Decision

On December 31, 1997, Trident filed an infringement action against Independent Ink in the United States District Court for the Southern District of Illinois based upon Independent Ink's refilling of Trident's patented single-use ink containers with its own ink. The suit, which Trident brought against four defendants in all, was dismissed as to Independent Ink and one other defendant for lack of personal jurisdiction. See *Trident, Inc. v. Applied Techs. Group, Inc.*, No. 3:97-cv-01047-GPM (S.D. Ill. Dec. 15, 1998).

Independent Ink commenced this action in August 1998 against Trident in the United States District Court

for the Central District of California, seeking a declaratory judgment of non-infringement and invalidity. Independent Ink later added several other causes of action, including federal and state antitrust law claims.[1] In its Fourth Amended Complaint, Independent Ink's federal antitrust claim alleged "monopolization, conspiracy to restrain trade, conspiracy to monopolize and attempted monopolization," evidently in violation of Sections 1 and 2 of the Sherman Act (15 U.S.C. §§ 1 & 2), based on, among other alleged conduct, the tying of the patented printheads and the ink. J.A. 2a.[2] Trident and ITW (which had been added as a defendant after it purchased Trident) moved for summary judgment on both the federal and state antitrust claims; Independent Ink moved for summary judgment only as to its Section 1 theory.

Independent Ink contended that Trident and ITW "necessarily ha[d] market power in the market for the tying product as a matter of law solely by virtue of the patent on their printhead system." Pet. App. 23a. At the same time, though, Independent Ink acknowledged that "'the mere fact of having a patent does not create market power vis-à-vis the products with which the patented product competes.'" *Ibid.* (quoting Plaintiff's Reply Brief at 4). Independent Ink's summary judgment briefs did not resolve this fundamental inconsistency: they

---

[1] Independent Ink's non-antitrust claims were state law claims for unfair competition, fraud, and negligent and intentional interference with prospective business advantage. The district court's jurisdiction was based on 28 U.S.C. § 1332(a)(1), 28 U.S.C. § 1337(a), and 28 U.S.C. § 1338(a).

[2] Independent Ink also included a claim under California state antitrust law. See Pet. App. 38a n.13.

"d[id] not discuss the products at issue, their substitutes, or the relevant markets." *Id.* at 24a. Indeed, Independent Ink itself admitted that its expert "'did not perform an antitrust analysis at all.'" *Ibid.* (quoting Plaintiff's Response to Defendants' Statement of Uncontroverted Facts at ¶ 10); J.A. 124a.

The district court denied Independent Ink's summary judgment motion and granted summary judgment for Trident on both claims. Pet. App. 38a, 49a. The court found that Independent Ink had "proffer[ed] no evidence that would establish Defendants' market power in the as yet undefined market for the tying product." *Id.* at 49a.

The district court rejected Independent Ink's contention that Trident's market power was presumed by virtue of its patent. "The weight of authority," the court observed, "is to the contrary," citing recent cases that did not apply the *International Salt-Loew's* presumption and noting the statement of the Department of Justice and Federal Trade Commission that, in analyzing patent-based tying, they "'will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner.'" *Id.* at 30a-33a (quoting United States Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property*, § 5.3 (1995) (other citations omitted)).

The district court distinguished *International Salt* and *Loew's*, finding that "[t]he Court's language [in those cases] concerning presumptions of market power based upon patents arose at a time when genuine proof of power in the market for the tying product was not required"; in contrast, the court reasoned, "in [*Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2

(1984)], the Court began demanding real proof of such market power." Pet. App. 34a-35a n.10 (citing 10 P. Areeda & H. Hovenkamp, *Antitrust Law* ¶ 1737a (1996)). Concluding that Independent Ink had produced "no evidence from which a reasonable trier of fact could define the relevant product and geographic markets," and had failed to "proffer any evidence that [petitioners] possess market power by virtue of their market share or that the market for the tying product contains barriers to entry," the court entered summary judgment for ITW and Trident on the Section 1 theory. Pet. App. 49a.[3]

The district court also granted summary judgment for ITW and Trident on Independent Ink's Section 2 theory. The court found that Independent's "proposed market definition was derived not from economic analysis of cross-elasticity of supply and cross-elasticity of demand, but rather from a report prepared by [Independent Ink's] vice president in a few hours." *Id.* at 50a-51a. The court's review of the record revealed "numerous actual and potential suppliers of ink for Trident's system." *Id.* at 52a. Similarly, Independent Ink had "fail[ed] to proffer evidence or analysis concerning the relevant geographic market." *Ibid.* Without evidence to support

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[3] Because the state law antitrust claim was "predicated upon the same facts" as the Sherman Act claim, and Independent did "not address [the state law] claims independently," the district court disposed of that state law claim together with the Sherman Act theories. Pet. App. 38a n.13. The court of appeals did not address the state law antitrust claim.

The parties subsequently settled the non-antitrust claims, and the district court entered final judgment for petitioners on the antitrust claims. *Id.* at 57a.

relevant product and geographic markets, Independent could not establish either that petitioners possessed monopoly power in a relevant market, or that there existed a dangerous probability of achieving such monopoly power. *Id.* at 53a, 56a. Finally, the court held that Independent Ink had failed to "proffer any evidence of a conspiracy to monopolize any defined market." *Id.* at 56a. Accordingly, Independent Ink's theories of monopolization, attempted monopolization and conspiracy to monopolize all failed.

C. The Federal Circuit's Decision

The court of appeals reversed the summary judgment in favor of Trident and ITW on the Section 1 theory. Relying on *International Salt* and *Loew's*, the Federal Circuit held that "patent and copyright tying, unlike other tying cases, do not require an affirmative demonstration of market power. Rather, *International Salt* and *Loew's* make clear that the necessary market power to establish a section 1 violation is presumed." Pet. App. 9a. The court of appeals refused petitioners' invitation to hold that *International Salt* and *Loew's* are no longer good law. The court recognized that the two cases have "been subject to heavy criticism" (*id.* at 13a) and that "[t]he time may have come to abandon the doctrine" (*id.* at 14a) but deferred to their "continued validity * * * as binding authority" (*id.* at 9a), noting that "it remains the '[Supreme] Court's prerogative alone to overrule one of its precedents'" (*id.* at 14a (quoting *State Oil*, 522 U.S. at 20)).

The court of appeals went on to hold that "a patent presumptively defines the relevant market as the nationwide market for the patented product itself, and creates a presumption of power within this market." Pet. App. 15a. Determining that petitioners' evidence of competition from the two rival printhead systems and barcode labeling had not overcome the market power presumption, the court reversed summary judgment for petitioners on Independent Ink's Section 1 theory and remanded the case "to permit [petitioners] an opportunity to supplement the summary judgment record with evidence that may rebut the presumption." *Id.* at 17a.

With respect to the Section 2 theory, however, the court of appeals affirmed the district court's grant of summary judgment for ITW and Trident. "In section 2 cases," the court stated, "the plaintiff bears the burden of defining the market and proving defendant's power in that market." Pet. App. 18a. It upheld the district court's determination that "plaintiff makes only the conclusory allegation of a geographic market without supporting economic evidence" and held that "[s]uch conclusory statements are not sufficient to define a relevant market." *Ibid.* Because Independent Ink failed to carry its burden, the district court properly granted summary judgment for petitioners. *Ibid.*

SUMMARY OF ARGUMENT

Tying arrangements are *per se* unlawful under Section 1 of the Sherman Act, 15 U.S.C. § 1, only when a seller has sufficient market power over the tying product; in particular, the seller must be able to force a purchaser of the tying product to buy the tied product as well. The conclusion that "[t]he requisite economic power is presumed when the tying product is patented or copyrighted" (*Loew's*, 371 U.S. at 45-46), is inconsistent with key elements of this Court's antitrust jurisprudence,

wholly at odds with economic reality, and sweeps large categories of procompetitive conduct within the prohibition of the *per se* rule. The presumption should be eliminated by this Court.

First, the presumption rests on an extraordinarily weak foundation. This Court never analyzed the degree of economic power conveyed by a patent and decided that it always — or even often — equates to the market power required to establish unlawful tying. Rather, the Court established the presumption on the basis of equitable principles relating to patent misuse. Moreover, although the Court has mentioned the presumption in dicta since announcing it forty-two years ago in *Loew's*, the Court never actually applied the presumption in a single case during that period.

Second, the presumption is inconsistent with this Court's antitrust jurisprudence. The Court's recent tying decisions apply a stringent market power standard; the Court has never explained how the presumption comports with that standard. Outside the tying context, moreover, the Court has refused to presume market power based on the existence of a patent.

Third, the overwhelming weight of scholarly authority concludes that patents do not ordinarily convey market power. A patent confers exclusive rights only with respect to a particular invention. It does nothing to foreclose other inventions that serve the same purpose and compete as substitutes in the same market. A broad range of commentators have concluded that patented products typically do compete with other goods — patented and unpatented — and that a patent therefore ordi-

narily does *not* convey market power. Considerable empirical analysis supports this assessment.

Fourth, this Court has recognized that tying arrangements frequently are beneficial. A presumption that reduces, or effectively eliminates, the market power requirement inevitably will impose liability for these procompetitive activities, thereby chilling the very type of conduct that the antitrust laws are designed to promote. The presumption also encourages meritless litigation, allowing plaintiffs to survive a motion to dismiss without any proof of market power, and thereby increasing the pressure on innocent defendants to settle rather than absorb the burdens of discovery, jury trial, and potential treble damages liability.

Fifth, the federal antitrust enforcement agencies abandoned the presumption ten years ago and have emphasized the risk of inappropriately penalizing legitimate conduct. That determination is consistent with the unanimous modern view of economists and legal scholars with both liberal and conservative perspectives on antitrust policy.

Finally, respondent is wrong in asserting that this Court lacks the authority to overrule the presumption. Congress's inaction with respect to this issue plainly preserves the Court's authority to determine the appropriate antitrust rule.

This Court does not lightly overrule its precedents, but it has taken that step a number of times in the antitrust context "when the theoretical underpinnings of those decisions are called into serious question." *State Oil*, 522 U.S. at 21. That standard is plainly satisfied here. The

market power presumption should be overturned by this Court.

ARGUMENT

MARKET POWER SHOULD NOT BE PRESUMED FROM THE EXISTENCE OF A PATENT ON THE TYING PRODUCT.

This Court has explained that "the essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms." *Jefferson Parish*, 466 U.S. at 12. "Accordingly, [the Court has] condemned tying arrangements when the seller has some special ability — usually called 'market power' — to force a purchaser to do something that he would not do in a competitive market. When 'forcing' occurs, [the Court's] cases have found the tying arrangement to be unlawful." *Id.* at 13-14 (footnote and citations omitted). This market power requirement, an unusual prerequisite for *per se* antitrust liability, thus serves the critical function of distinguishing potentially harmful tying from tying that provides procompetitive benefits or poses no potential anticompetitive harm.

The Court has cautioned against "[l]egal presumptions that rest on formalistic distinctions rather than actual market realities" and emphasized that "[i]n determining the existence of market power" it is important to "examine[] closely the economic reality of the market at issue." *Kodak*, 504 U.S. at 466-67 (footnote omitted); see also *Basic, Inc. v. Levinson*, 485 U.S. 224, 246 (1988) (upholding presumption because it was supported by "common sense and probability"). The presumption that "[t]he requisite economic power [is present] when the tying product is patented or copyrighted" (*Loew's*, 371 U.S. at 45-46) is the very embodiment of a "formalistic" doctrine that is flatly inconsistent with market reality.

A patent confers only an exclusive right to manufacture, use, and sell a particular invention. See 35 U.S.C. § 154(a)(1). The patent does not preclude others from creating non-infringing alternatives that are substitutes for, and compete with, the patented invention. *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177-78 (1965) ("There may be effective substitutes for the device which do not infringe the patent."); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1203 (2d Cir. 1981) ("the patented product * * * often * * * represents merely one of many products that effectively compete in a given product market"), *cert. denied*, 455 U.S. 1016 (1982). Indeed, "patent law encourages competitors to design or invent around existing patents." *WMS Gaming Inc. v. Int'l Game Tech.*, 184 F.3d 1339, 1355 (Fed. Cir. 1999).

As the authors of the leading treatise on antitrust and intellectual property law explain:

> [I]f I have a patent on an easy-opening soft drink can, no one else during the life of the patent can duplicate this precise can in a way that would constitute patent infringement. However, (1) there may be alternative easy-opening cans, whether patented or unpatented that are as good as or superior to mine; or (2) easy-opening cans may not be all that valuable to consumers, who

> would just as soon have the traditional cans or who would buy their soft drinks in bottles in response to any price increase in cans. * * * My patent grant creates an antitrust 'monopoly' only if it succeeds in giving me the exclusive right to make something for which there are not adequate market alternatives, and for which consumers would be willing to pay a monopoly price.

1 H. Hovenkamp, M. Janis & A. Lemley, *IP and Antitrust* § 4.2, at 4-8 to 4-9 (2002). Commentators have concluded, with virtual unanimity, that patents only rarely confer significant market power. The available empirical evidence strongly supports that conclusion. See pages 25-26, *infra*.

This Court has never even inquired whether the market power presumption reflects economic reality, let alone determined that it does. The Court simply transported from patent law into antitrust law a rule developed in connection with the equitable defense of patent misuse. Moreover, in other antitrust contexts the Court has rejected the principle embodied in the presumption, refusing to presume market power from the mere existence of a patent. It is appropriate, therefore, to reconsider the market power presumption in this case.

We recognize that this Court approaches reconsideration of its decisions "with the utmost caution." *State Oil*, 522 U.S. at 20. In the antitrust context, however, the Court has explained that "there is a competing interest [to *stare decisis*], well represented in th[e] Court's decisions, in recognizing and adapting to changed circumstances and the lessons of accumulated experience. * * * Accordingly, th[e] Court has reconsidered its decisions

construing the Sherman Act when the theoretical underpinnings of those decisions are called into serious question." *Id.* at 20, 21 (overruling *Albrecht v. Herald Co.*, 390 U.S. 145 (1968)); see also *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984) (overruling *Kiefer-Stewart Co. v. Joseph E. Seagram & Sons, Inc.*, 340 U.S. 211 (1951)); *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36 (1977) (overruling *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967)).

The very circumstances that led the Court to overturn these other antitrust precedents are present here as well. The market power presumption was transplanted into antitrust law on the basis of scant analysis; it is wholly inconsistent with this Court's modern antitrust jurisprudence; it has been abandoned by the federal antitrust enforcement agencies; and it is the subject of unusually unanimous scholarly criticism. Moreover, respondent's contention that Congress's failure to overturn the presumption somehow eliminated this Court's authority to do so is plainly wrong.

A. The Presumption Does Not Rest On A Determination By This Court That A Patent Ordinarily Conveys The Market Power Necessary To Establish An Unlawful Tie.

The Court explained its decision to overrule the intra-enterprise conspiracy doctrine in *Copperweld* by observing that it had never before considered "the merits of the * * * doctrine in depth"; the doctrine had arisen "from a far narrower rule"; and, although the Court had "expressed approval of the doctrine on a number of occasions," that statement "was in all but perhaps one in-

stance unnecessary to the result." 467 U.S. at 760. The presumption at issue here has a similarly undistinguished pedigree.

In fact, in the forty-two years since recognizing the presumption in *Loew's*, the Court has never applied it again. Although the Court repeated the presumption in several subsequent opinions addressing tying claims, none of those cases turned on the presumption, as none involved a tying product that was patented or copyrighted. See *Jefferson Parish*, 466 U.S. at 16; *United States Steel Corp. v. Fortner Enters., Inc.*, 429 U.S. 610, 619 (1977) ("*Fortner II*"); *Fortner Enters., Inc. v. United States Steel Corp.*, 394 U.S. 495, 505 n.2 (1969) ("*Fortner I*"); P. Areeda & H. Hovenkamp, *Antitrust Law*, ¶ 518, at 197 n.31 (2005 Supp.) ("the last Supreme Court decision to rely on the power presumption was *Loew's*").

1. The Origins Of The Presumption

International Salt is cited as the decision originating the presumption in the patent context (see *Loew's*, 371 U.S. at 46), although the Court did not expressly announce the presumption in its opinion in that case. The defendant there refused to lease its salt-dispensing machines unless the lessee also agreed to purchase from the defendant the salt used in the machines. The Court found an unlawful tie without discussing the defendant's market power or explaining why such analysis was unnecessary to establish the illegality of the tie.

Fifteen years later, the *Loew's* Court provided the reasoning for the decision in *International Salt*. It explained that the presumption of market power for patented or copyrighted products "grew out of a long line

of patent cases which had eventuated in the doctrine that a patentee who utilized tying arrangements would be denied all relief against infringements of his patent. These cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products." 371 U.S. at 46 (citing cases).

The Court then set forth its rationale for extending the rule of the patent misuse cases into antitrust law:

> Since one of the objectives of the patent laws is to reward uniqueness, the principle of these cases was carried over into antitrust law on the theory that the existence of a valid patent on the tying product, without more, establishes a distinctiveness sufficient to conclude that any tying arrangement involving the patented product would have anticompetitive consequences.

Id. at 46 (citing *International Salt*); see also *Paramount Pictures*, 334 U.S. at 158 (block licensing of motion pictures is unlawful under the antitrust laws because it "add[s] to the monopoly of the copyright in violation of the principle of the patent cases involving tying clauses") (footnote omitted).

This rationale rests on several highly questionable premises. To begin with, the patent misuse cases themselves did not address whether a patent conveys the sort of market power that triggers antitrust concern. The issue in those cases was whether, as a matter of equity, a patent owner should be precluded from enforcing its patent rights because it had tied the patented good to a non-patented product. The Court was not concerned with the actual competitive effect of the tie. Rather, be-

cause the Court deemed the tie to have expanded the "scope" of the exclusionary rights conveyed by the patent beyond what was granted by the patent itself, the patent holder lost the ability to enforce the patent. See, *e.g.*, *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 491-92 (1942); *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 456 (1940); see also R. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399, 410 (2003) (under the Court's holding in *Morton Salt*, "[a]n antitrust violation would not be necessary in order to prove patent misuse nor would antitrust analysis provide the proper test").[4]

The *Loew's* Court indicated that the "theory" of *International Salt* was that the existence of a patent by itself "establishes a distinctiveness sufficient to conclude that any tying arrangement involving the patented product would have anticompetitive consequences." 371 U.S. at 46. But as this Court made clear in subsequent decisions, that theory did not rest on analysis of International Salt's actual market power: "the defendant in *International Salt* offered to prove that competitive salt machines were readily available which were satisfactory substitutes for its machines (a fact the Government did not controvert), but the Court regarded such proof as irrelevant." *Northern Pac. Ry. Co. v. United States*, 356 U.S. 1, 10 n.8 (1958); see also *Standard Oil Co. of Cal.*

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[4] The Court referred in these cases to the patent holder's "monopoly," but those statements related to the patent holder's "exclusive right to make, use and vend the particular device described and claimed in the patent," not to monopoly power in the antitrust sense. *Morton Salt*, 314 U.S. at 491; see also *Ethyl Gasoline*, 309 U.S. at 456.

v. United States, 337 U.S. 293, 305 (1949) ("[i]t was not established that equivalent machines were unobtainable, it was not indicated what proportion of the business of supplying such machines was controlled by defendant, and it was deemed irrelevant that there was no evidence as to the actual effect of the tying clauses upon competition").

It appears that the Court simply viewed the presumption as an inevitable consequence of the principle that "the patents confer no right to restrain use of, or trade in, unpatented salt." *International Salt*, 332 U.S. at 395-396 (citations omitted); see also *Paramount Pictures*, 334 U.S. at 156-159 (asserting that patent ties expand the scope of a "patent monopoly" and concluding, without any further elaboration, that the tying arrangement was also an illegal restraint of trade under Section 1).

The Court's reference in *Loew's* to "anticompetitive consequences" thus appears to be the product of a judicial determination about the appropriate limits on intellectual property rights and not the result of antitrust analysis. *Jefferson Parish*, 466 U.S. at 37-38 n.7 (O'Connor, J., concurring in the judgment) ("[In *Paramount Pictures*,] the Court did not analyze the arrangement with the schema of tying cases. Rather, the Court borrowed the patent law principle of 'patent misuse' * * *. The 'patent misuse' doctrine may have influenced the Court's willingness to strike down the arrangement at issue in *International Salt* as well * * *."); W. Landes & R. Posner, *The Economic Structure of Intellectual Property Law* 374 (2003) ("courts in the early patent tie-in cases tended to confuse patent 'monopolies' with monopolies that have economic consequences grave

enough to warrant the invocation of antitrust prohibitions").

2. The Evolution Of The Market Power Standard

The Court's analysis in *Loew's* almost certainly was influenced by the fact that when *International Salt* and *Loew's* were decided, tying arrangements, whether involving intellectual property or not, were viewed with much more suspicion than they are today. At that time, this Court's assessment was that "[t]ying agreements serve hardly any purpose beyond the suppression of competition." *Standard Oil*, 337 U.S. at 305; see also *Brown Shoe v. United States*, 370 U.S. 294, 330 (1962) ("the use of a tying device can rarely be harmonized with the strictures of the antitrust laws, which are intended primarily to preserve and stimulate competition").

The Court accordingly had little reason to require a showing of significant market power; in fact, the market power requirement was minimal. In *Northern Pacific*, for example, the Court stated that market power could be inferred from the existence of the tying agreements themselves. See 356 U.S. at 7-8; see also 10 P. Areeda et al., *Antitrust Law*, ¶ 1733d4, at 21 (2d ed. 2004) ("[s]ome [market] power — in the sense of a departure from perfect competition—was clearly required" in *Northern Pacific* but "the Court demanded very little").

More recently, however, the Court has recognized "that tying may have procompetitive justifications that make it inappropriate to condemn without considerable market analysis." *NCAA v. Board of Regents*, 468 U.S. 85, 104 n.26 (1984); see also *Jefferson Parish*, 466 U.S. at 11-12 ("Buyers often find package sales attractive; a

seller's decision to offer such packages can merely be an attempt to compete effectively — conduct that is entirely consistent with the Sherman Act."); *id.* at 35-42 (opinion concurring in the judgment) (explaining that tying harms competition only in limited circumstances and describing situations in which tying promotes efficiency and benefits consumers); see pages 27-30, *infra*.

In order "to screen out [a] class of harmless tie," the Court applied a much more stringent market power standard in its recent decisions in *Jefferson Parish* and *Kodak*. *Grappone, Inc. v. Subaru of New England, Inc.*, 858 F.2d 792, 796-97 (1st Cir. 1988) (Breyer, J.); see also 10 Areeda et al., *supra*, ¶ 1733a, at 13 (the market power requirement "was not taken seriously until the late 1970s. Beginning with *Fortner II* and continuing in *Jefferson Parish* and *Kodak*, the Supreme Court has insisted that the plaintiff prove such power") (footnotes omitted); Pet. App. 6a-7a ("The requirement of demonstrating sufficient market power to raise prices [in modern cases] was notably more onerous than the *Northern Pacific* requirement").

Jefferson Parish held that the defendant's market power must be "significant," and that the mere fact that "prices can be raised above the levels that would be charged in a competitive market" is not sufficient to establish "the kind of market power that justifies condemnation of tying." 466 U.S. at 26, 27 & n.46; see also *Grappone, Inc.*, 858 F.2d at 796 ("[*Jefferson Parish*] makes clear that by its requirement of 'market power' it means *significant* market power — more than the mere ability to raise price only slightly, or only on occasion, or only to a few of a seller's many customers.") (emphasis in original). In *Kodak*, the Court amplified this point,

referring to the requirement of "appreciable economic power in the tying market," and defining "market power" as "'the ability of a single seller to raise price and restrict output.' The existence of such power ordinarily is inferred from the seller's possession of a predominant share of the market." 504 U.S. at 464 (citation omitted).

If *International Salt* and *Loew's* had never been decided, it is inconceivable that the Court today would accept the contention that market power should be presumed when a tying product is copyrighted or patented. Given the stringent market power standard that the Court applied in *Jefferson Parish* and *Kodak*, and the important role that standard plays in protecting procompetitive conduct, the Court would require — as the predicate for recognizing such a presumption — a broad consensus that a patent or copyright ordinarily in fact conveys the requisite market power. As we demonstrate below (at 24-26), however, the consensus is just the opposite: a patent by itself generally is a poor indicator of market power. Even if the presumption could be reconciled with the market power standard that the Court formerly applied in tying cases, therefore, the presumption is plainly inconsistent with the standard that the Court applies today.

In sum, the presumption has rarely been applied, was not based upon rigorous analysis of market power when it was adopted, and is plainly inconsistent with the Court's recent decisions. Far from supporting the presumption, this Court's precedents demonstrate why the presumption should now be eliminated.

B. The Requisite Market Power Cannot Reasonably Be Presumed From The Existence Of A Patent.

When considering whether to overrule an antitrust precedent, this Court has also looked to whether that precedent is consistent with the analysis underlying its other antitrust decisions. See, *e.g.*, *State Oil*, 522 U.S. at 15-18. Because the presumption is sharply inconsistent with the Court's decisions in cases not involving intellectual property tying, this factor too weighs heavily in favor of overturning the presumption.

As long ago as *Northern Pacific*, this Court noted that "it is common knowledge that a patent does not always confer a monopoly over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the patent privileges is slight." 356 U.S. at 10 n.8; see also *Walker Process*, 382 U.S. at 177-78 (noting that "[i]t may be that the device [that was the subject of the patent claim] * * * does not comprise a relevant market. There may be effective substitutes for the device which do not infringe the patent").

The Court accordingly has refused to extend the presumption of market power from the mere existence of a patent or copyright. See *Walker Process*, 382 U.S. at 177 (refusing to presume market in attempted monopolization case: whether the patent holder had market power "is a matter of proof"); Areeda & Hovenkamp, *supra*, ¶ 518, at 195 (2005 Supp.); see also *Abbott Labs. v. Brennan*, 952 F.2d 1346, 1354 (Fed. Cir. 1991) ("A patent does not of itself establish a presumption of market power in the antitrust sense"), *cert. denied*, 505 U.S.

1205 (1992); *SCM Corp.*, 645 F.2d at 1203 ("When the patented product, as is often the case, represents merely one of many products that effectively compete in a given product market, few antitrust problems arise.").

There is no rational justification for treating intellectual property differently in tying cases. Nothing about tying changes the degree of power that inheres in an intellectual property right: if a patent owner lacks market power when it engages in exclusive dealing, there is no reason to conclude that market power has sprung up when it ties.

Certainly the available empirical evidence provides no basis for a presumption that a patent or copyright ordinarily confers significant market power. The existence of a patent should be considered in the market power analysis, just like any other relevant fact. But "[i]n determining the existence of market power * * * this Court has examined closely the economic reality of the market at issue." *Kodak*, 504 U.S. at 466-467 (footnote omitted).

Commentators with a wide variety of perspectives on antitrust law have concluded that the market power presumption is inconsistent with economic reality. The leading antitrust treatise states that "there is no economic basis for inferring any amount of market power from the mere fact that the defendant holds a valid patent, copyright, trademark, or other intellectual property right." 10 Areeda et al., *supra*, ¶ 1737a, at 79 (footnote omitted).

Professor Lawrence Sullivan — in other contexts a supporter of generous interpretations of the antitrust laws — has concluded that "the relevant market may be

much broader than a single patented product, in which case a patent-holder would have no significant inter-brand market power. * * * Establishing that a tying product possesses market power should require more than introducing evidence that a valid patent was issued." L. Sullivan & W. Grimes, *The Law of Antitrust* 429 (2000). Similarly, Judge Posner and Professor Landes have explained that the market power presumption resulted from confusion between an economic monopoly and a patent right: "One does not say that the owner of a parcel of land had a monopoly because he has the right to exclude others from using the land. But a patent or copyright is a monopoly in the same sense." Landes & Posner, *supra*, at 374; see also E. Singer, *Antitrust Economics and Legal Analysis* 112 (1981) ("[A]ll patents do not confer substantial or even significant market power.").

Empirical data strongly support this broadly-held view, demonstrating that a large percentage of patents produce little or no economic value — the opposite of what would be true if a patent typically conferred market power upon the patent holder. One study found that "at any given time, over about 95 percent of patents are unlicensed and over about 97 percent are generating no royalties." S. Vermont, "The Economics of Patent Litigation," in *From Ideas to Assets: Investing Wisely in Intellectual Property* 327, 332 (B. Berman, ed. 2002); see also Feldman, *supra*, at 437 ("eighty percent to ninety percent of patents never create any monetary return for the patent holder"); R. Rapp & L. Stiroh, "Standard Setting and Market Power," presented at Joint Hearings of the United States Department of Justice and the Federal Trade Commission, at 1 (April 18, 2002) ("Empirical

research by Scherer, Pakes, Schankerman, Lanjouw and others has established and confirmed a useful generalization: that the distribution of patent values is skewed; most patents (and patented inventions) are worth very little and only a very few have considerable value.") (citing studies), *available at* http://www.ftc.gov/os/comments/intelpropertycomments/nera.pdf.

As Justice O'Connor explained, "[a] common misconception has been that a patent or copyright * * * suffices to demonstrate market power." *Jefferson Parish*, 466 U.S. at 37 n.7 (O'Connor, J., concurring in the judgment). While intellectual property ownership might "help to give market power to a seller, it is also possible that a seller will have no market power: for example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product." *Ibid.*

The amici in this case have provided additional support for Justice O'Connor's conclusion, demonstrating that is commonplace for patented products to compete with other patented products and non-patented products. See, *e.g.*, Pfizer Pet. Am. Br. 6[5]; American Intellectual Property Law Association ("AIPLA") Pet. Am. Br. 5; Intellectual Property Owners ("IPO") Pet. Am. Br. 11.[6]

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[5] "Pet. Am. Br." refers to the amicus brief filed at the petition stage.

[6] Respondent argues (Br. in Opp. 6-14 & 21-24) — contrary to all of the authority cited in the text — that patents and copyrights do ordinarily confer market power. But respondent's entire argument is based on the premise that if a customer purchases two products pursuant to a tie, but would not purchase the products if they were sold separately, it necessarily has made a "rationally disadvantageous decision" because of "the market power [obtained by the seller] as a result of the unique features of the patented product" (*id.* at 9). Thus, according to respondent, a tie could not be successful in the marketplace in the absence of market power in the tying product. That is the very approach taken by the Court in *Northern Pacific* and subsequently rejected in *Jefferson Parish* and *Kodak* based on the Court's determination that some ties succeed in the marketplace because they are *pro*competitive. See pages 20-22, *supra*. Respondent's theory is thus squarely inconsistent with this Court's tying jurisprudence.

There simply is no reason for this Court to maintain a presumption that creates inconsistency in the Court's decisions and conflicts with market reality as well.

C. The Presumption Penalizes Procompetitive Behavior And Encourages Unjustified Litigation.

In construing the Sherman Act, this Court takes account of the real-world implications of the legal rule under consideration, including whether the rule will produce a large number of "false positives" and thereby deter procompetitive behavior (*e.g.*, *Verizon Communications, Inc. v. Law Offices of Curtis V. Trinko*, 540 U.S. 398, 414 (2004)), or open the door to significant unjustified litigation (*e.g.*, *Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 226-27 (1993)). Both factors weigh strongly in favor of eliminating the presumption.

1. Most Tying Arrangements Are Economically Beneficial.

Tying arrangements "benefit[] society by protecting quality, lowering costs or increasing value, increasing

price competition, [or] aiding entry." 9 Areeda et al., *supra*, ¶ 1703g, at 44 (2d ed. 2004); *Jefferson Parish*, 466 U.S. at 42 (O'Connor, J., concurring in the judgment) ("tying may make the provision of packages of goods and services more efficient"). Judge Bork observed that "tying arrangements used to achieve economies of scale, nondiscriminatory measurement of use, and efficient technological interdependence are valuable not merely to the firm but to consumers." R. Bork, *The Antitrust Paradox* 380-81 (2d ed. 1993); see also R. Posner, *Antitrust Law* 197 (2d ed. 2001) ("the tying arrangement" is "[a] practice long thought to epitomize the exclusionary practices but now recognized to be only rarely exclusionary").

Tying may "increase[] rivalry in the tied market" or "serve competition by promoting product quality and protecting the supplier's goodwill in the tying product." 9 Areeda et al., *supra*, ¶¶ 1714b3 & 1716a, at 137, 154. It may lead to product improvement or cost savings for customers, suppliers, or both. *Id.* ¶¶ 1716g, at 179-80, 1717a, 1717b, at 180, 182; see also D. Evans & M. Salinger, *Why Do Firms Bundle and Tie? Evidence from Competitive Markets and Implications For Tying Law*, 22 Yale J. on Reg. 37, 66-83, 84-86 (2005) (describing case studies of tying arrangements in the markets for over-the-counter cold remedies and pain relievers, foreign electrical adapters, and mid-size sedans and observing that cost savings provides the most plausible explanation for most of the ties).[7]

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[7] Accord D. Turner, *The Durability, Relevance, and Future of American Antitrust Policy*, 75 Cal. L. Rev. 797, 805 & n.30 (1987) (legitimate purposes of tying arrangements include "tying a complementary product to insure high performance of the tying product; tying servicing to generate information leading to product improvement; cost savings from joint production or distribution; and the use of tying as a vehicle for indirect price competition in an oligopoly market"); W. Baxter, *The Viability of Vertical Restraints Doctrine*, 75 Cal. L. Rev. 933, 939 (1987) (a "tie may be the most efficient method for assuring the quality of the variable input and thus for assuring the performance of the tying capital item"); F. Easterbrook, *Vertical Arrangements and the Rule of Reason*, 53 Antitrust L.J. 135, 146 n.24 (1984) (discussing the scholarly literature on the potential procompetitive attributes of tying arrangements); J. Tirole, *The Analysis of Tying Cases: A Primer*, 1 Competition Pol'y Int'l 1, 14-15 (2005) (tying may improve efficiency by causing distribution cost savings, compatibility cost savings, "telling consumers that a complementary good functions adequately with the basic good," and protecting the functionality of intellectual property).

Patent ties can be procompetitive for these same reasons. Indeed, courts have long recognized that patent tying may create efficiencies in calculating license fees or in distributing the patented product. See, *e.g.*, *United States v. Jerrold Elecs. Corp.*, 187 F. Supp. 545, 555-58 (E.D. Pa. 1960) (holding tying was not antitrust violation for entrant into new industry), *aff'd per curiam*, 365 U.S. 567 (1961); see also W. Bowman, *Patent and Antitrust Law* 55 (1973) ("[A] tie-in, like many other contractual restrictions upon use, is a means of measuring the value of the patent to the user.").

Commentators have described a host of other efficiencies from patent tying. Assistant Attorney General Pate pointed out that tying of patented and unpatented

supplies "could minimize the risks associated with the uncertainty that a patent owner may have regarding the value of his/her patented technology." R. H. Pate, "Antitrust and Intellectual Property," at 7 (Jan. 24, 2003), *available at* http://www.usdoj.gov/atr/public/speeches/200701.pdf; W. Tom & J. Newberg, *Antitrust and Intellectual Property: From Separate Spheres to Unified Field*, 66 Antitrust L.J. 167, 211-12 (1997) (intellectual property tying "may well be output enhancing").[8]

If the patent holder does not have significant market power, a patent tie can only *enhance* competition in the relevant market for the patented product. *Jefferson Parish*, 466 U.S. at 37 (O'Connor, J., concurring in the judgment) ("Absent [market] power tying cannot conceivably have any adverse impact in the tied-product market, and can be only pro-competitive in the tying

[8] See also 9 Areeda et al., *supra*, ¶ 1703g5, at 46-47 (tying may be necessary to realize the value of a patent when the patent covers a "so-called combination of unpatented elements"); *id.* ¶ 1717f3, at 203 ("A package license of patents, especially those that are used in combination or as alternatives, highlights legitimate savings in transaction costs."); IPO Am. Br. 12 ("tying increases the availability of goods, especially with respect to digital information goods") (citations omitted).

Here, the record contains compelling evidence that Trident's inks are specially formulated to work with Trident's printheads, and that the use of third-party inks can jeopardize system performance and even damage the printhead. See J.A. 378a-379a, 457a, 459a-470a. Requiring OEMs to purchase only Trident replacement ink thus serves the procompetitive functions of protecting system performance and integrity and preserving the goodwill Trident has developed.

product market."); see also 9 Areeda et al., *supra*, ¶ 1703a, at 30-31 ("diminished competition is not the object or effect of most litigated tie-ins, especially not of those foreclosing only a small share of a properly defined tied product market").

A rigorous market power requirement thus protects a wide range of legitimate conduct from the broad net that the *per se* rule otherwise casts. By exaggerating the economic power inhering in intellectual property, the market power presumption negates this protection, reintroducing the danger that procompetitive tying arrangements will be penalized in antirust actions.[9]

This Court has noted on multiple occasions that "[m]istaken inferences and the resulting false condemnations 'are especially costly, because they chill the very conduct the antitrust laws are designed to protect.'" *Trinko*, 540 U.S. at 414 (quoting *Matsushita Elec. Indus. Co.* v. *Zenith Radio Corp.*, 475 U. S. 574, 594 (1986)). Even the potential of "treble damage liability" is enough "'to inhibit management's exercise of its independent business judgment'" (*Monsanto Co. v. Spray-Rite Serv. Corp.*, 465 U.S. 752, 764 (1984) (internal quotation marks and citation omitted)). By increasing the likelihood that procompetitive ties will be mistakenly con-

[9] The cost of the market power presumption is not limited to the loss from procompetitive tying arrangements that are inappropriately condemned. Also highly significant is the economic loss resulting from those procompetitive patent or copyright ties that are never even attempted because an intellectual property owner did not want to risk potential treble damages liability.

demned, the presumption creates a very substantial risk of these adverse consequences.[10]

2. The Market Power Presumption Encourages Meritless Litigation.

The presumption also promotes unjustified litigation. The Federal Circuit held that undisputed evidence of competing substitutes for the patent or patented product is not sufficient to rebut the presumption. Pet. App. 16a. Rather, "[t]he presumption can only be rebutted by expert testimony or other credible economic evidence of the cross-elasticity of demand, the area of effective competition, or other evidence of lack of market power." *Ibid.*

A defendant thus must pay for a full-blown antitrust market analysis to counter even the sketchiest allegation of tying. Such an evaluation, which inevitably entails collection and analysis of massive amounts of data by

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[10] The rebuttable nature of the presumption does not safeguard procompetitive conduct against these adverse consequences. The Federal Circuit imposes a heavy burden on a defendant attempting to rebut the presumption, requiring "expert testimony or other credible economic evidence" regarding the cross-elasticity of demand or other indicia demonstrating the lack of market power. Pet. App. 16a. That burden heightens the danger that a procompetitive tying arrangement will be condemned mistakenly because proving a negative is difficult in general and especially in the complex field of economic analysis.

To the extent the presumption is irrebuttable, as respondent suggested in its brief in opposition (at 24 n.7), an even greater number of procompetitive tying arrangements would be condemned.

highly paid economic consultants, is an enormous burden to impose on intellectual property owners who wish to protect their investments in innovation.

By shifting to defendants the plaintiffs' burden on a fundamental element of a tying claim, the presumption increases the chances that deficient claims will survive motions to dismiss and for summary judgment. That in turn increases the odds that unjustified settlement payments will be extracted from innocent defendants confronted by the expense, and treble damages risk, of an antitrust trial.

This phenomenon is well illustrated by this case. The court of appeals upheld summary judgment in petitioners' favor on the Section 2 theory because Independent Ink made only conclusory allegations with respect to the relevant geographic market. Pet. App. 18a. But the court of appeals rejected the district court's determination that the very same flaws doomed the Section 1 theory, holding that the presumption allowed that theory to survive summary judgment. *Id.* at 17a. Respondent was permitted to rely on the presumption to establish what it clearly could not prove — that Trident possessed market power in a relevant market. If the presumption were upheld by this Court, petitioners would be forced to expend considerable time and money to rebut the presumption.

The presumption thus unjustifiably increases the costs of owning, disseminating and enforcing intellectual property through efficient contractual arrangements. These increased costs ultimately discourage firms from investing in the development of intellectual property in the first place. Given intellectual property's increasingly

important role in our economy,[11] such a disincentive could cause substantial long-run harm to our economy — to innovators, manufacturers and consumers alike.

Indeed, because the presumption forces a full-blown antitrust market analysis in every case, even where the absence of market power is obvious, it almost certainly will increase litigation costs in the aggregate as well. If "the 'rebutting considerations' must be investigated in every case[,] * * * much of the savings that the presumption purported to create is ultimately lost as each party adversely affected by the presumption has both the incentive and the opportunity to invite the court to rebut it." C. Gillette, *Rules and Reversibility*, 72 Notre Dame L. Rev. 1415, 1433 (1997). Not only does the presumption increase the chance that the *per se* rule against tying will be imposed to penalize procompetitive conduct, it also lacks the countervailing benefit of aiding litigation efficiency. There simply is no reason to impose this burden on the development and utilization of intellectual property.

[11] As Deputy Assistant Attorney General Delrahim observed: "[I]ntellectual property-based exports — whether copyrighted music, movies or software, or patent-protected goods such as pharmaceuticals or electronic products — have become this country's number one export. As such, their creation and protection is critical to maintaining a vibrant economy." M. Delrahim, "International Antitrust and Intellectual Property: Challenges on the Road to Convergence," at 1 (May 21, 2004), *available at* http://www.usdoj.gov/atr/public/speeches/205629.pdf.

D. The Federal Enforcement Agencies Rejected The Market Power Presumption A Decade Ago.

In determining whether it is appropriate to overrule an antitrust precedent, the Court also has assessed the role played by that precedent in the federal government's enforcement activities. *State Oil*, 522 U.S. at 19 (citing *Copperweld*, 467 U.S. at 777). For the last ten years — through two Administrations — the enforcement agencies have refused to apply the presumption.

Guidelines issued in 1995 state that the federal antitrust enforcement agencies "will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner," even in tying cases. United States Department of Justice and the Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* §§ 2.2 & 5.3 (1995). The agencies recognized that "[a]lthough the intellectual property right confers the power to exclude with respect to the *specific* product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power." *Id.* § 2.2 (emphasis in original).[12]

[12] Commentators have observed that the agencies' position "effectively repudiate[s] the old approach" reflected in *International Salt* and *Loew's*. Tom & Newberg, *supra*, at 173-74; see also T. Hayslett III, *1995 Antitrust Guidelines for the Licensing of Intellectual Property: Harmonizing the Commercial Use of Legal Monopolies with the Prohibitions of Antitrust Law*, 3 J. Intell. Prop. L. 375, 395 (1996) ("[t]he Guidelines retreat from the historic common law position and specifically embrace the scholars' arguments").

The leadership of the Antitrust Division has reiterated this same point more recently. Assistant Attorney General Pate stated that "[i]n the view of the Department of Justice and the Federal Trade Commission, the idea that IP rights cannot be presumed to create market power is a settled question." R. H. Pate, "Competition and Intellectual Property in the U.S.: Licensing Freedom and the Limits of Antitrust," at 13 (June 3, 2005), *available at* http://www.usdoj.gov/atr/public/speeches/209359.pdf. As he explained:

> While intellectual property grants exclusive rights, these rights are not monopolies in the economic sense: they do not necessarily provide a large share of any commercial market and they do not necessarily lead to the ability to raise prices in a market. A single patent, for example, may have dozens of close substitutes. The mere presence of an intellectual property right does not permit an antitrust enforcer to skip the crucial steps of market definition and determining market effects.

Id. at 12-13. "[W]ithout a showing that the patent actually conveys market power, antitrust concerns do not arise." R. H. Pate, "Antitrust and Intellectual Property," *supra*, at 7.

Deputy Assistant Attorney General Delrahim further explained that "[c]lose substitutes in the marketplace may foreclose the new product or technology from realizing any meaningful return, let alone gaining a monopoly position. In this respect, intellectual property assets are comparable to other kinds of property." M. Delrahim, "Contemporary Issues at the Intersection of Intel-

lectual Property and Antitrust," at 5-6 (Nov. 10, 2004) (footnote omitted), *available at* http://www.usdoj.gov/atr/public/speeches/206607.pdf.

This factor, too, thus weighs heavily in favor of overruling the Court's prior cases recognizing the market power presumption.

E. The "Great Weight" Of Scholarly Opinion Is Sharply Critical Of The Market Power Presumption.

The Court also has pointed to the "'great weight' of scholarly criticism" as another factor relevant in determining whether to overrule a prior decision. *State Oil*, 522 U.S. at 21 (quoting *GTE Sylvania*, 433 U.S. at 47-48).

There is an overwhelming scholarly consensus — including distinguished commentators from every point on the antitrust spectrum — that the market power presumption should be abandoned. See, *e.g.*, H. Hovenkamp, M. Janis & M. Lemley, *IP and Antitrust*, § 4.2e6, at 4-34 (2005 Supp.) ("a poorly grounded presumption"); 10 Areeda et al., *supra*, ¶ 1737c, at 82 ("[i]f [*International Salt*] really required power and inferred it from any patent, it erred"); Posner, *supra*, at 197-98 ("[M]ost patents confer too little monopoly power to be a proper object of antitrust concern. Some patents confer no monopoly power at all."); Turner, *supra*, at 805 ("courts mistakenly assume the 'market power' predicate to be met where the tying product is patented or copyrighted or is distinctive from products offered by competitors"); J. Bauer, *A Simplified Approach to Tying Arrangements: A Legal and Economic Analysis*, 33 Vand. L. Rev. 283, 333 n. 179 (1980) ("The harsh me-

chanical treatment of tie-ins involving patented tying products is difficult to explain except perhaps on historical grounds."); see also K. Dam, *The Economic Underpinnings of Patent Law*, 23 J. Legal Stud. 247, 249-50 (1994) ("[I]t is readily apparent that the right to exclude another from [the grant of a patent] may give no significant market power, even when the patent covers a product that is sold in the market. Indeed, without the benefit of empirical research, it is entirely plausible to conclude that in the great bulk of instances no significant market power is granted."); pages 24-26, *supra*.[13]

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[13] See generally Comments of F. M. Scherer, *Panel Discussion — The Value of Patents and Other Legally Protected Commercial Rights*, 53 Antitrust L.J. 535, 547 (1985) (discussing how even a rebuttable presumption of market power from a patent or copyright is unwise); Note, *The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements*, 85 Colum. L. Rev. 1140, 1141 (1985) ("the presumption does not serve as an adequate proxy for evidence of actual economic power, is not consistent with current antitrust doctrine, and should be rejected"); J. D. Brinson, *Proof of Economic Power in a Sherman Act Tying Arrangement Case: Should Economic Power Be Presumed When the Tying Product is Patented or Copyrighted?*, 48 La. L. Rev. 29, 66 (1987) ("A copyrighted or patented tying product should not be presumed to give its seller power over price."); R. Pearson, *Tying Arrangements and Antitrust Policy*, 60 Nw. U. L. Rev. 626, 644 (1965) ("If the teaching of *Loew's* is that the requisite market power is to be presumed from this kind of uniqueness or desirability, then there exists, indeed, a slender fulcrum to support the kind of lever we are led to believe is used in tying arrangements. This kind of desirability or uniqueness confers very little market power, or none at all.").

We are not aware of any significant authority on antitrust or intellectual property law who has defended the presumption of market power in patent and copyright tying cases in the last twenty years. This factor accordingly weighs in favor of abandoning the presumption as well.

F. Congress's Inaction Did Not Override This Court's Authority To Reconsider And Overrule Its Prior Decisions.

Respondent argues (Br. in Opp. 2-5) that this Court is precluded from reconsidering the market power presumption because the issue supposedly has been addressed by Congress. But Congress has neither codified the presumption nor enacted legislation in reliance on the presumption's existence. Respondent's entire argument rests on Congress's failure to enact legislation.

This Court has repeatedly cautioned that "'[a]s a general matter [congressional inaction] deserve[s] little weight in the interpretive process.'" *Alexander v. Sandoval*, 532 U.S. 275, 292 (2001) (citing *Central Bank of Denver, N.A. v. First Interstate Bank of Denver, N.A.*, 511 U.S. 164, 187 (1994)). In the absence of a wholesale statutory revision, "it is impossible to assert with any degree of assurance that congressional failure to act represents affirmative congressional approval of the Court's statutory interpretation." *Alexander*, 532 U.S. at 292 (quoting *Patterson v. McLean Credit Union*, 491 U.S. 164, 175, n. 1 (1989)) (internal quotation marks omitted); see also *United States v. Craft*, 535 U.S. 274, 287 (2002) ("failed legislative proposals are 'a particularly dangerous ground on which to rest an interpretation of a prior statute,' * * * 'because several equally

tenable inferences may be drawn from such [congressional] inaction, including the inference that the existing legislation already incorporated the offered change'") (citations omitted).

Reliance on congressional inaction is particularly inappropriate in the antitrust context for the same reason that *stare decisis* applies with less force: Congress in the Sherman Act conferred upon the courts a mandate to evolve antitrust law in a common law fashion (*State Oil*, 522 U.S. at 20-21) and a very clear expression of congressional intent therefore would be necessary to conclude that Congress has withdrawn the Court's authority with respect to a particular issue.[14] Respondent cannot point to any evidence that even comes close to satisfying this standard.

In 1988, Congress enacted the Patent Misuse Reform Act. See Act of Nov. 19, 1988, Pub. L. No. 100-703, § 201, 102 Stat. 4674, 4676 (codified at 35 U.S.C. § 271(d)(5)), which requires proof of actual market power to establish a patent misuse defense based on patent tying. The Senate version of the bill contained an additional provision overruling the market power presumption. The legislative history states that because the

[14] See, *e.g.*, *Flood v. Kuhn*, 407 U.S. 258, 281-82 (1972) (refusing to overrule *Federal Baseball Club v. National League*, 259 U.S. 200 (1922), because of *stare decisis* and congressional inaction); *Toolson v. New York Yankees, Inc.*, 346 U.S. 356 (1953) (per curiam) (same). *Flood* and *Toolson*, this Court has explained, represent "'an aberration * * * rest[ing] on a recognition and an acceptance of baseball's unique characteristics and needs.'" *State Oil*, 522 U.S. at 19 (citation omitted).

measure was considered at the end of the congressional session, "the House did not have time to consider and approve th[e] measure" eliminating the presumption in antitrust tying cases. 134 Cong. Rec. S17,148 (Oct. 21, 1988) (statement of Sen. Leahy). See generally Feldman, *supra*, at 420 (the Patent Misuse Reform Act was "a cloakroom compromise in the waning days of the 100th Congress").[15]

A bill eliminating the market power presumption was proposed in 1995 after the federal enforcement agencies issued the *Antitrust Guidelines for the Licensing of Intellectual Property* rejecting the presumption. Assistant Attorney General Joel Klein was asked whether Congress should enact a statute overruling the market power presumption in light of the enforcement agencies' position. See *Intellectual Property Antitrust Protection Act of 1995: Hearings on H.R. 2674 Before the Committee on the Judiciary, House of Representatives*, 104th Cong., 2d Sess. 11-12 (1996) ("*Hearings on 1995 Act*"). He recommended that Congress leave the issue to the courts:

> The virtual unanimity of scholars on this point, the analysis contained in the DOJ/FTC Intellectual

[15] It is also possible that, despite the legislative compromise, some members of Congress believed that the Patent Misuse Reform Act eliminated the market power presumption in antitrust tying cases as well. See generally 10 Areeda et al., *supra*, ¶ 1737(c), at 83 & n.27 (observing that, although "Congress rejected a broader bill," it is possible to read "the Patent Act amendment [as] effectively abolish[ing] any presumption of market power for patents or patented tying products in antitrust suits as well as in patent misuse doctrine").

> Property Guidelines, and the inexorable development and maturation of court decisions in this area of antitrust law, which all resolve the issue in accordance with the substance of this legislation [eliminating the market power presumption], bring into question whether legislative action is really necessary at this point. One of the great virtues of the antitrust laws is that they are general in nature. Adopting new antitrust legislation should be done only when the need for such legislation is great.

Id. at 16.

Assistant Attorney General Klein's testimony recognized that the Ninth Circuit had employed the market power presumption in *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985). See *Hearings on 1995 Act* at 16. But he did not believe that this decision justified congressional intervention because "the law is at the point where, especially with our guidelines, the likelihood of seeing a recurrence of a *Digidyne*-type holding[] seems to me to be very small." *Id.* at 17. He explained that, "given the [Ninth Circuit's subsequent decision in *Mozart Co. v. Mercedes-Benz of North America*, 833 F.2d 1342 (9th Cir. 1987)], the uniform body of law review articles and case law subsequent to *Digidyne*, and now the Department of Justice and Federal Trade Commission Guidelines, * * * *Digidyne* is a relic, and, therefore, * * * the costs of this kind of relatively small change in the antitrust law outweigh the benefits." *Hearings on 1995 Act* at 18.[16] The 1995 bill never passed.

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[16] At another point in his testimony, Assistant Attorney General Klein explained:

Respondent quotes at length (Br. in Opp. 3) from Representative Boucher's statement during the hearing on a similar bill in 2001. However, Representative Boucher cited Assistant Attorney General Klein's prior testimony in explaining why legislative action was not required. *Hearing Before the Subcommittee on Courts, the Internet, and Intellectual Property of the Committee on the Judiciary, House of Representatives*, 107th Cong., 1st Sess. 17 (Nov. 8, 2001); see also *id.* at 10 (testimony of Charles Baker on behalf of the American Bar Association) ("[t]he only hesitation about this legislation that I have heard is from those who say that we should not as a matter of principle amend the 100-year-old antitrust laws").

> The strength of Justice O'Connor's concurring opinion in *Jefferson Parish* and the weakness of the *Digidyne* analysis make it unsurprising that this Ninth Circuit opinion has been the lone decision since *Jefferson Parish* upholding the rule of *Loew's*. Rather, one Circuit Court of Appeals after another has rejected the idea that the mere existence of an intellectual property right alone could give rise to a market-power presumption. [Citing *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673, 676 (6th Cir. 1986); *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665, 673 n.4 (7th Cir. 1985); and several other decisions in a footnote.] This reflects, I think, the wisdom of allowing the Sherman Act to evolve through case law, in which repeated exposure to real-world market situations and developments in economic thinking give judges and advocates the chance to apply the law's general mandates with flexibility and circumspection.

Id. at 15-16.

In sum, Congress's inaction is much more consistent with a determination to leave the issue to the courts than with endorsement of the presumption. There simply is no basis for the Court to conclude that Congress has overturned the general rule that applies under the Sherman Act and withdrawn this Court's authority to reconsider and overrule the market power presumption.

* * * * *

The market power presumption is plainly wrong. Its origins lie in patent law and equity rather than antitrust law and economic analysis. It is inconsistent with economic scholarship and empirical analysis regarding the relationship between a patent and market power. The presumption has been abandoned by the federal enforcement agencies and criticized by a broad array of legal scholars. Moreover, the presumption is inconsistent with this Court's precedents — those relating to the market power standard in tying cases and addressing the treatment of intellectual property in other contexts. As it has in other circumstances in which antitrust precedents were similarly flawed, the Court should eliminate the presumption by overruling the cases in which it has been applied.

The court of appeals relied entirely upon the presumption in setting aside the district court's grant of summary judgment for petitioners on respondent's Section 1 patent tying theory. Pet App. 15a-17a. With respect to respondent's Section 2 claim, which was not affected by the presumption, the court of appeals upheld the district court's rejection of the Section 2 claim on the ground that respondent did not carry its burden of proving the relevant market, let alone the existence of market

power within such a market. Pet. App. 18a. In the absence of a presumption, that same reasoning is dispositive of the Section 1 theory; indeed, respondent's arguments with respect to market definition were the same for both theories (see Resp. Ct. App. Br. 33-36). No further analysis of the record is necessary or appropriate. This Court should reverse the court of appeals' judgment, reinstating the district court's grant of summary judgment in favor of petitioners on the Section 1 theory.

CONCLUSION

The judgment of the court of appeals should be reversed.

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SUPREME COURT OF THE UNITED STATES

ILLINOIS TOOL WORKS INC., ET AL.,
Petitioners,

v.

INDEPENDENT INK, INC.,
Respondent.

On Writ of Certiorari To The
United States Court of Appeals
For the Federal Circuit

BRIEF OF AARP, THE PUBLIC PATENT FOUNDATION AND CONSUMERS UNION AS *AMICI CURIAE* IN SUPPORT OF RESPONDENT

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QUESTION PRESENTED

Whether, in an action arising under Section 1 of the Sherman Act, 15 U.S.C. § 1, alleging unlawful tying of a patent license to the purchase of a nonpatented good, market power in the tying product market should be presumed from the tying party's patent over the tying product.

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In the
SUPREME COURT OF THE UNITED STATES

ILLINOIS TOOL WORKS INC., ET AL.,
Petitioners,

v.

INDEPENDENT INK, INC.,
Respondent.

On Writ of Certiorari To The United States Court of Appeals For the Federal Circuit

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BRIEF OF AARP, THE PUBLIC PATENT FOUNDATION AND CONSUMERS UNION AS *AMICI CURIAE* IN SUPPORT OF RESPONDENT

INTEREST OF *AMICI CURIAE*[1]

AARP is a nonpartisan, nonprofit membership organization of over 35 million persons, age 50 or older, dedicated to addressing the needs and interests of older Americans. AARP seeks through education, advocacy, and service to enhance the quality of life for all by promoting independence, dignity, and purpose. In its efforts to promote independence, AARP works to foster the health and economic security of individuals as they age by attempting to ensure the availability of quality and economical health coverage. As the country's largest membership organization, AARP has a long

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[1] In accordance with Supreme Court Rule 37.6, AARP, Consumers Union and the Public Patent Foundation (*amici curiae*) state that: (1) no counsel to a party authored this brief, in whole or in part; and (2) no person or entity, other than *amici curiae*, their members and counsel have made a monetary contribution to the preparation or submission of this brief. The written consents of the parties to the filing of this brief have been filed with the Clerk of the Court pursuant to Supreme Court Rule 37.3.

history of advocating for access to affordable health care and for controlling costs without compromising quality.

A decision in this case will determine how litigation regarding patents used in tying arrangements will be conducted in virtually every consumer industry in America. Tying can affect the price of many consumer products and services, and is an emerging issue in the prescription drug marketplace. AARP is interested in this case to the extent it will affect tying arrangements in the pharmaceutical industry.

Access to prescription drug treatments is particularly important to the older population which, because of its higher rates of chronic and serious health conditions, has the highest rate of prescription drug use. AARP conducts research and engages in educational activities and advocacy to increase access to affordable prescription drugs. Since May of 2004, AARP's Public Policy Institute has issued a series of reports that closely monitor the pricing actions of the pharmaceutical industry. *See, e.g.*, David Gross et al., *Trends in Manufacturer Prices of Brand Name Prescription Drugs Used by Older Americans – First Quarter 2005 Update*, AARP Public Policy Institute (July 2005), *available at* http://assets.aarp.org/rgcenter/health/dd122drugprices.pdf. AARP has filed *amicus curiae* briefs in prescription drug litigation aimed at lowering the costs of prescription drugs including *In re Cardizem CD Antitrust Litig.*, 332 F.3d 896 (6th Cir. 2003), *cert denied sub nom Andrx Pharma., Inc. v. Kroger Co.*, No. 03-779 (Oct. 12, 2004); *Valley Drug Co., v. Geneva Pharms., Inc.* 344 F.3d 1294 (11th Cir. 2003) *cert. sub nom Walgreen Co. v. Abbot Labs.*, No. 03-1178 (Oct. 12, 2004). AARP also filed an amicus curiae brief in the recent case of *Merck KgaA v. Integra Lifesciences I, Ltd.*, _U.S._, 125 S. Ct. 2372 (2005)(involving patent infringement exception).

The Public Patent Foundation ("PUBPAT") is a not-for-profit legal services organization founded in 2003 to represent the public's otherwise unrepresented interests in the patent system, and most particularly the public's interests against the harms caused by wrongly issued patents and unsound patent

policy. PUBPAT provides the general public and specific persons or entities otherwise deprived of access to the patent system with representation, advocacy, and education and it is funded by grants from the Rockefeller Foundation, the Echoing Green Foundation, the Rudolph Steiner Foundation and the Open Society Institute and by private donations from the public. PUBPAT has argued for sound patent policy before the United States Court of Appeals for the Federal Circuit, the United States Patent & Trademark Office, the European Parliament, and the United States House of Representatives Subcommittee on Courts, the Internet, and Intellectual Property.

PUBPAT has an interest in this matter because the Court's decision will have a significant effect on the public's interests represented by PUBPAT and because PUBPAT's mission is to represent those interests against harm that could be or is caused by unsound policy with respect to patents. More specifically, resolution of this matter will determine how patents on one product that are used through tying arrangements to eliminate competition on another un-patented product are evaluated under antitrust law. PUBPAT has an interest in ensuring that the power of patents is adequately appreciated in such circumstances so that patents are not allowed to be unjustifiably extended in ways that harm competition.

Consumers Union ("CU") is a nonprofit membership organization chartered in 1936 to provide consumers with information, education and counsel about goods and services and to advocate for state and federal policies that advance and protect consumers' interests. CU has a long history of advocating for health care including safe, effective, and affordable prescription drugs.

CU is the nonprofit publisher of *Consumer Reports* magazine, with approximately 4.5 million print subscribers and more than two million subscribers to its online site *ConsumerReports.org*, which regularly carries articles on health-related topics, including federal and state consumer

protection laws, policies and programs. Consumer Reports ranks 7th nationally among print periodicals in terms of number of subscriptions.

CU has an interest in this case because it will affect patent litigation in cases of illegal tying. Tying can affect the price of many consumer products and services, and is an emerging issue in the prescription drug marketplace. The outcome of this case may affect the ability of consumers to afford necessary medicines, and the case therefore raises significant concerns for consumer health and costs.

SUMMARY OF ARGUMENT

Patents are designed to confer market power upon inventors. The commercial reality in many markets, including the pharmaceutical industry, is that patents do in fact give their owners market power. The issue here is not whether patents can confer market power on their owner, but rather whether the presumption that they do makes sound policy. This Court has long recognized – and correctly so – that the presumption is indeed reasonable because it is precisely those technologies over which patents are most likely to confer market power that a patent holder will implement a tying arrangement that harms competition. The class of patents to be looked at when deciding whether to have a presumption or not is not all issued patents, but instead only those patents that an owner could successfully attempt to leverage through a tying arrangement, because it is those tying arrangements that will end up being challenged in court.

Patents often confer market power on their owner because they define the relevant market (the drug covered by the patent) and the exclusive rights they provide their owner give power within that market. This fact is widely recognized throughout the pharmaceutical industry by the drug companies themselves. Tying in the form of combination pills, which are part patent protected drug and part non-exclusive drug, is an emerging business model in the pharmaceutical industry. Competition in the market for the non-exclusive component of

a combination pill is injured as a result of such tying, which is only successful because of the market power provided by the patent on the other component. This results in higher prices and fewer choices in the market for the tied non-exclusive component. Thus, as just one example, the presumption that a patent confers market power on its owner makes sound policy in cases involving the tying of separate pharmaceutical products and it should not be abandoned.

Further, pragmatically speaking, economic rationality ensures that the only people who will bring tying claims are those being competitively injured as a result of the tying arrangement. Under those circumstances, as discussed above, it is extremely likely that market power in the tying product market is provided by the patent, because it is that market power that is being leveraged to cause the competitive harm in the tied product market. Truth be told, tying arrangements involving patents occur all the time, but contrary to what Petitioner and their *amici* would have this Court believe, only a very few are ever challenged as being anticompetitive. With respect to those cases, the market power resulting from the patent on the tying product is clear and the presumption of market power should be maintained.

ARGUMENT

I. THE PHARMACEUTICAL INDUSTRY ILLUSTRATES HOW PATENTS FREQUENTLY CONFER MARKET POWER

The presumption that a patent confers market power on its owner is just as correct today as it has been throughout the nearly sixty years that this Court has recognized it. *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 16 (1984) ("if the government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power"). This is because a patent confers on its owner the exclusive right to manufacture, use, and sell the particular invention during its twenty year term. 35 U.S.C. §154(a)(1)-(2). As such, it has

been recognized that, "[b]y their nature, patents create an environment of exclusion, and consequently, cripple competition." *Schering-Plough v. FTC*, 402 F.3d 1056, 1065-1066 (11th Cir. 2005), *petition for cert. filed* (Aug. 29, 2005)(No. 05-273). Petitioner and its *amici* concede as much. (*See, e.g.*, United States Br. 9) ("[i]t is certainly possible that a patent holder could possess market power sufficient to support a per se tying claim").

In fact, the market power conferred by a patent has actually increased over time. For one reason, trends in Congress have been to strengthen, not weaken, intellectual property rights. John H. Barton, *Reforming the Patent System*, 287 Science 1933-1934 (March 17, 2000), *available at* http://www.biotech-info.net/reforming.html. In addition, there has long been a statutory presumption of validity of a patent that strongly favors the holder of even an invalid patent. 35 U.S.C. § 282; *see also Doddridge v. Thompson*, 22 U.S. (9 Wheat.) 469, 483 (1824) (holding that a patent is presumed valid until the contrary is shown). Thus, generally speaking, the presumption that a patent confers on its owner market power in the market for the patent protected invention is correct.

The pharmaceutical industry illustrates the direct causal relationship between the issuance of a patent and the receipt of market power. Thus, when a pharmaceutical company receives a patent on a new drug, that patent gives the company the exclusive right to sell the new drug, which is frequently so innovative that it creates its own market. That exclusive right in the new market gives the company considerable market power, which it would not have without the patent. The pharmaceutical industry is one example of the correctness of the presumption that patents confer market power on their owner, but it is also correct in many other industries with respect to many other technologies.

A. Patents Confer Market Power When The Scope Of The Patent Defines The Scope Of The Relevant Market.

In antitrust law, relevant product markets are determined by examining the reasonable interchangeability of products. *See Brown Shoe Co. v. United States*, 370 U.S. 294, 325 (1962) ("The outer boundaries of a product market are determined by the reasonable interchangeability of use or the cross-elasticity of demand between the product itself and substitutes for it.") Market power is the ability for a single seller to raise price and restrict output within a relevant market. *Eastman Kodak Co. v. Image Technical Services*, 504 U.S. 451, 464 (1992); *see also United States v. E. I. Du Pont de Nemours & Co.*, 351 U.S. 377, 391 (1956) ("Monopoly power is the power to control prices or exclude competition.").

In this case, the Federal Circuit held that in tying cases "a patent presumptively defines the relevant market as the nationwide market for the patented product itself, and creates a presumption of power within this market." *Indep. Ink, Inc. v. Ill. Tool Works, Inc.*, 396 F.3d 1342, 1352 (Fed. Cir. 2005). A patent will always give its holder market power in cases where the patent itself defines the relevant market, since a patent allows its holder to completely exclude competition from that market. The patent holder is given an unfettered ability to raise price and restrict output in that market during the term of the patent and that power granted by the patent is significant.

While it may not always be correct to define a market as one patented product, this type of narrow market definition is common in antitrust law.[2] For example, a product may constitute its own market when it is so highly differentiated that for some consumers nothing else will do. *United States v. Grinnell Corp.*, 384 U.S. 563, 574 (1966). In fact, even one

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[2] The Federal Trade Commission often argues for this type of narrow market definition in its antitrust cases involving the pharmaceutical industry, as discussed in the next section.

brand of a particular product can constitute a separate market for antitrust purposes. *Kodak*, 504 U.S. at 482. In addition, a broader product market may contain "well-defined submarkets . . . which, in themselves, constitute product markets for antitrust purposes." *Brown Shoe*, 370 U.S. at 325. In general, this Court has emphasized that market definition must take into account the "'commercial realities' faced by consumers." *Kodak*, 504 U.S. at 482 (citation omitted). The commercial reality in many markets, including specifically the pharmaceutical industry, is that patents do give their owners market power.

B. Patents Routinely Confer Market Power In The Pharmaceutical Industry.

Petitioner and its *amici* concede that patents can confer market power in certain markets; they just argue that this is a rare occurrence. For example, the American Intellectual Property Law Association ("AIPLA") argues that "the mere issuance of a patent neither defines a relevant product market nor conveys market power in a relevant market, *except in very rare cases*." (AIPLA Br. 3) (emphasis added). They believe this is rare because "[i]n AIPLA's experience, virtually all patents cover improvements to existing products that represent modest, incremental advances. Rarely do they claim pioneering inventions that open entirely new economic markets. Thus, the issuance of a patent, standing alone, only rarely affords its owner or licensor any appreciable market power in a relevant product market in the antitrust sense, i.e., the power to raise prices or restrict output in that market." *Id.* at 5.

This implies that in industries where innovators patent inventions that are totally new products, as opposed to improvements to existing products, patents do give their owners market power. The pharmaceutical industry is an example of one industry where patent inventions can be totally new products.

The United States makes the argument that "[a] market participant's possession of a patent right, and the consequent statutory right to exclude infringing products from the

marketplace, cannot give the participant market power if-as is *usually* the case-there are noninfringing alternatives to the patented product that qualify, in the economic sense, as good substitutes." (United States Br. 11) (emphasis added). By this, the Government makes the point that products do not have to be substantially identical in the patent infringement sense in order to function as economic substitutes for antitrust purposes. *Id.* at n.6. As an example, the Government points out that wooden pencils and mechanical pencils could both be included in a "pencil" or "manual writing instrument" market. *Id.*

Unlike pencils, however, many patented prescription drug products do *not* have acceptable noninfringing substitutes because even within a therapeutic class there may be significant differences in effectiveness and toxicity. For example, one Court of Appeals found that although there is a "certain degree of interchangeability among all antibiotics" there are certain features of cephalosporins (including their effectiveness against a wider range of infectious organisms, their ability to treat penicillin-allergic patients, and their production of fewer side effects) that reduce their interchangeability with other drugs and make them a relevant product market. *SmithKline Corp. v. Eli Lilly & Co.*, 575 F.2d 1056, 1064 (3d Cir. 1978) ("Thus, although there is a certain overlap in therapeutic capability, . . . cephalosporins possess sufficiently unique features to warrant their characterization as a discrete product market, one lacking interchangeability with antibiotics in general."). In many recent antitrust cases involving the pharmaceutical industry, the Federal Trade Commission ("FTC") has determined that the relevant market constitutes of only a branded drug and its generic bioequivalents as listed in the Food and Drug Administration ("FDA") Orange Book.[3] The FTC's market

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[3] *See, e.g., Biovail Corp.*, F.T.C. Docket No. C-4060 (Oct. 2, 2002) (Complaint ¶¶ 18-20, 22), *available at* http://www.ftc.gov/os/2002/10/bioavailcmp.pdf; *Abbott Labs. & Geneva Pharm., Inc.*, F.T.C. Docket Nos. C-3945, 3946 (May 22, 2000) (Complaint ¶¶ 10, 12), *available at* http://www.ftc.gov/os/2000/05/c3945complaint.htm ("The relevant product market for assessing respondents' anticompetitive conduct is terazosin hydrochloride . . . . Other drugs are not effective substitutes for terazosin

definitions highlight the fact that differences in safety, efficacy, and side effects reduce the interchangeability of prescription drugs, even within the same therapeutic class.

The pharmaceutical industry itself has always emphasized the importance of patents to their market power. When the Federal Trade Commission and the Department of Justice held hearings on patents and competition policy, pharmaceutical representatives testified that "patent protection is indispensable in promoting pharmaceutical innovation for drug products containing new chemical entities[NCEs] . . . By preventing rival firms from free riding on the innovating firms' discoveries, patents can enable pharmaceutical firms to cover their fixed costs and regain the capital they invest in R&D efforts." Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* ch. 3, at 4 (Oct. 2003), *available at* http://www.ftc.gov/os/2003/10/innovationrpt.pdf [hereinafter *FTC Report*]. *See also id.* at 9 ("Participants in the Hearings overwhelmingly expressed the view that patent rights for pharmaceuticals are essential for brand-name companies to prevent free riding and recoup their significant investments in research and development of NCEs."). The drug companies also routinely tell their investors about the severe economic consequences of patent expiration. In a quarterly report filed with the Securities and Exchange Commission, Pfizer cautioned its investors that

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HCL because they are different in terms of chemical composition, safety, efficacy, and side effects. In addition, there is little price sensitivity between terazosin HCL and non-terazosin HCL products."); *Hoechst Marion Roussel, Inc. & Andrx Corp.*, F.T.C. Docket No. 9293 (Mar. 16, 2000) (Complaint ¶ 12), *available at* http://www.ftc.gov/os/2000/03/hoechstandrxycomplaint.htm ("A relevant product market for assessing respondents' anticompetitive conduct is once-a-day diltiazem. . . . Other calcium channel blockers are not acceptable substitutes for diltiazem for several reasons, including, inter alia, the differences in efficacy and side effects, and the risks associated with switching patients from one calcium channel blocker to another. In addition, narrower relevant product markets may be contained within the market for once-a-day diltiazem products.").

"[t]he loss of patent protection with respect to any of our major products could have a material adverse effect on revenue and net income." Pfizer Inc., Quarterly Report (Form 10-Q) (July 3, 2005).[4] When discussing various legal proceedings in which it was involved, Pfizer went on to say that "a loss in any of these cases could result in a loss of patent protection for the drug at issue, which could lead to a significant loss of sales of that drug and could materially affect future results of operations." *Id.* In its annual report, Pfizer also emphasized that "[t]he expiration of a basic product patent or loss of patent protection resulting from a legal challenge normally results in significant competition from generic products against the originally patented product and can result in a significant reduction in sales of that product in a very short period." Pfizer Inc., Annual Report (Form 10-K) (Dec. 31, 2004).[5] Other pharmaceutical companies make similar statements to investors about the direct relationship between patent protection and market power.[6]

Lastly, the circumstances in which Petitioner's *amici* concede that patents confer market power (circumstances they allege are "rare" and "not usual") are precisely those situations

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[4] *Available at* http://www.sec.gov/Archives/edgar/data/78003/000007800305000213/q2-05pfe1.htm.

[5] *Available at* http://www.sec.gov/Archives/edgar/data/78003/000095012305002379/y06124e10vk.htm.

[6] *See* Schering-Plough Corp., Annual Report (Form 10-K) (Dec. 31, 2004), *available at* http://www.sec.gov/Archives/edgar/data/310158/000095012305002785/y05567e10vk.htm ("When a product patent expires, the patent holder often loses effective market exclusivity for the product. This can result in a rapid, sharp and material decline in sales of the formerly patented product, particularly in the U.S."); Johnson & Johnson, Quarterly Report (Form 10-Q) (July 3, 2005), *available at* http://www.sec.gov/Archives/edgar/data/200406/000020040605000106/secondqtrtenq.txt ("In the event the Company is not successful in defending a lawsuit resulting from an Abbreviated New Drug Application filing, the generic firms will then introduce generic versions of the product at issue, resulting in very substantial market share and revenue losses.").

where the patent holder will be able to execute an effective tying arrangement. If the owner of a pencil patent tried forcing its customers to also buy its pencil boxes, it would not be successful, because consumers would have the ability to acquire pencils from other manufacturers that did not require the purchase of a box. Although these types of arrangements are tried frequently, no one ever litigates them because they do not cause competitive harm. The pencil manufacturer's competitors are not impacted by the tie, except that they may actually benefit from it in that it will force consumers *away* from the tying party's products.

To the contrary, it is precisely those "rare" and "not usual" cases where a patent prevents consumers from accessing substitutes that the tying arrangement works to the benefit of the tying party and the detriment of competition. The market power in the tying product, provided by the patent that excludes alternatives to the tying product, is what enables the forced purchasing of the tied product. That forcing creates the anticompetitive injury sufficient to justify another party to challenge the arrangement under antitrust law, something that is "rare" and "not usual". Therefore, even if the frequency with which patents confer market power on their owner is "rare" or "not usual," in some industries, that does not impact the reasonableness of presuming that the *small* number of patents involved in tying arrangements which are harmful enough to justify being challenged in court do confer market power on their owner. Additionally, in many industries, like the pharmaceutical industry, there is no doubt that a patent does in fact confer market power.

C. The Market Power Conferred By Patents in the Pharmaceutical Industry Has Increased.

Over the past two decades, Congress has enacted a series of laws that have greatly increased the effective patent life enjoyed by brand name prescription drugs. Michie I. Hunt, *Prescription Drugs and Intellectual Property Protection: Finding the Right Balance Between Access and Innovation,* Nat'l Inst. for Health Care Mgmt. (Aug. 2000), *available at*

http://www.nihcm.org/prescription.pdf. The market power that goes hand in hand with owning a patent on a prescription drug has been recognized by commentators and in fact "the operation of the patent system is on the forefront of controversies, both domestic and international, about its effects upon pricing and exclusion in the pharmaceutical industry." Daniel J. Gifford, *How Do the Social Benefits and Costs of the Patent System Stack Up in Pharmaceuticals?*, 12 J. Intell. Prop. L. 75, 78 (Fall 2004). The market power conferred by patents in the prescription drug industry is so great, that government intervention has been suggested by some parties. "The special case for government intervention in pharmaceutical prices derives from the monopoly market power granted by the state to patented drugs." Kevin Outterson, *Pharmaceutical Arbitrage: Balancing Access and Innovation in International Prescription Drug Markets*, 5 Yale J. Health Pol'y, L. & Ethics 193, 239 (2005).

It is not surprising that patents in the pharmaceutical industry confer market power, since that is the intended consequence of the current regulatory environment. The pharmaceutical industry involves a delicate balance between the need for innovators to recoup research and development expenditures and the desire for consumers to pay affordable prices for drugs. Congress has attempted to achieve this balance through the Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585 (1984) (codified at 15 U.S.C. §§ 68b-68c, 70b; 21 U.S.C. §§ 301 note, 355, 360cc; 28 U.S.C. § 2201; 35 U.S.C. § 156, 271, 282) (known as the Hatch-Waxman Act). Hatch-Waxman made it easier for generic drugs to enter the market by creating an abbreviated approval process for generics. Cong. Budget Office, *How Increased Competition from Generic Drugs Has Affected Prices and Returns in the Pharmaceutical Industry* xii (July 1, 1998) [hereinafter *CBO Report*], *available at* http://www.cbo.gov/ftpdocs/6xx/doc655/pharm.pdf.

One of the additional goals of Hatch-Waxman was to allow pharmaceutical companies to recoup their investments in research and development. According to the Congressional

Budget Office ("CBO") Report, pharmaceutical innovators "quickly lose over 40 percent of their market, on average, to generic drugs." *Id.* at 37. The Act's patent term extensions were enacted to partially offset this loss for branded drug companies because the patents give them exclusive rights for a period of time so they can recoup their investment in research and development. *Id.* According to the CBO, "[t]he patent system provides a period of protection during which manufacturers of innovator drugs can charge relatively high prices, earning profits that enable them to compensate for the costs of a drug's discovery and development." *Id.* at 13. This period of exclusivity provided by patents is expressly and specifically designed to give innovators market power, in the sense that they can charge supracompetitive prices for a period of time in order to recoup their development costs.[7] If patents did not give market power to their owner, this scheme would fail because the patent holder would not be able to protect its profits from competition.

Therefore, not only has the presumption that patents confer market power on their owner maintained its veracity since first being promulgated decades ago, recent changes in patent law has increased its soundness with respect to pharmaceutical patents.

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[7] Although some patented drugs may eventually face competition from other branded drugs in the same therapeutic class, this process usually takes at least 6 years. *CBO Report* at xi. In addition, other drugs within the same therapeutic class may not be reasonably interchangeable due to differences in effectiveness and toxicity. Furthermore, the CBO points out that "[w]hen a breakthrough drug is introduced, by definition it has no close substitutes on the market. Demand for the drug is therefore fairly insensitive to price, since no alternative treatment of equal quality and effectiveness exists." *Id.* at 19-20.

II. THE PHARMACEUTICAL INDUSTRY IS RELEVANT TO THIS CASE BECAUSE OF THE NEW TREND IN PHARMACEUTICAL TYING ARRANGEMENTS.

As discussed above, the Hatch-Waxman Act attempted to balance the public's need for affordable medicines with the innovator's need to recoup R&D costs. To achieve this balance, the Hatch-Waxman framework extends the innovator's market exclusivity while making it easier for generic drugs to enter the market once that exclusivity period has expired. When companies improperly expand the scope of their market exclusivity, it destroys the delicate Hatch-Waxman balance and harms the public interest. Pharmaceutical companies have a reputation for "gam[ing]" the system in an attempt to "restrict competition beyond what the Hatch-Waxman Amendments intended." *FTC Report* ch. 3, at 13. Indeed, almost twenty-five percent of new competition investigations by the FTC in recent years have involved pharmaceutical products.[8/]

Pharmaceutical tying occurs when a drug manufacturer forces a patient to buy an un-patented drug or medical product in order to have the right to purchase a patented one. For example, Sandoz Pharmaceutical required purchasers of its schizophrenia drug clozapine, the first new drug for the treatment of schizophrenia in twenty years, to also purchase Sandoz's distribution and patient-monitoring services. Sandoz's "'tying' arrangement raised the price of clozapine treatment and prevented others - such as private laboratories, the Veterans Administration, and state and local hospitals - from providing the related blood tests and necessary patient monitoring." *Sandoz Pharmaceuticals Corp.*, 115 F.T.C. 625 (1992)(No. C-3385)(consent order).[9/]

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[8] Timothy J. Muris, Chairman, FTC, *Everything Old is New Again: Health Care and Competition in the 21st Century, 7th Annual* Competition in Health Care Forum 3 n. 13 (Nov. 7, 2002), http://www.ftc.gov/speeches/muris/murishealthcarespeech0211.pdf (prepared remarks of Timothy Muris).

[9] Summarized at *FTC Antitrust Actions in Pharmaceutical Services and*

An expansion of this new trend in the pharmaceutical industry is to "tie" two different medications together into a combination pill; precluding the consumer from buying only one of the medications in the combination pill separately. Tying through combination pills that are part patent-protected drug and part non-exclusive drug is becoming more prevalent as an attempt by pharmaceutical industries to maximize profits and exclude generic manufacturers from entering the market after the patent expires on the otherwise non-exclusive medication in the combination pill. Lara J. Glasgow, *Stretching the Limits of Intellectual Property Rights: Has the Pharmaceutical Industry Gone Too Far?* 41 IDEA 227, 231-232, 250 (2001). These combination pills allow the branded drug company to tie a non-exclusive drug to a patent-protected drug that still enjoys market exclusivity. This harms competition in the market for the non-patented component because consumers are forced to buy the tying party's non-exclusive drug in order to get the patent protected component. This forcing destroys what would otherwise be a fully competitive market for the non-exclusive drug.

The tying scheme is only successful because of the market power provided by the patent on the patent-protected component. The resulting anti-competitive injury is seen as higher prices and fewer medical choices in the market for the non-patent protected drug. These are exactly the type of arrangements that tying law condemns because "[t]hey deny competitors free access to the market for the tied product, not because the party imposing the tying requirements has a better product or a lower price but because of his power or leverage in another market. At the same time buyers are forced to forego their free choice between competing products." *Northern Pacific Railway Co. v. United States*, 356 U.S. 1, 6 (1958).

One example of this tying through combination pill strategy used by the pharmaceutical industry involves the tying

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Products, Bureau of Competition FTC (Nov. 8, 2002), http://www.ftc.gov/bc/rxupdate021108.htm.

of a promising new heart medication with another drug that would otherwise be subject to full and fair competition. Pfizer is developing a new drug, torcetrapib, that has been heralded as a novel weapon against heart disease that may be an important clinical tool in preventive cardiology. Jerry Avorn, *Torcetrapib and Atorvastatin - Should Marketing Drive the Research Agenda?* 352 New Eng. J. Med. 2573, 2573-2574 (June 23, 2005).[10] However, "[e]nthusiasm about this potentially important new therapeutic tool has been tempered by concern about how the company will study and market the drug." *Id.* at 2574. This is because Pfizer plans on marketing the new drug, which it expects to have fully protected by a patent, only with its own statin, which is but one drug in a class of statins. The patent on Pfizer's statin, marketed under the brand name Lipitor, is due to expire in 2010, which would otherwise leave it subject to full competition from generics. The tying arrangement accomplished by the torcetrapib - Lipitor combination pill will prevent this full competition from happening. Not only will the tying of torcetrapib to Lipitor in one combination pill have a harmful effect on competition, it will also cause clinical problems for patients who cannot tolerate[11] (or afford) Lipitor. Those patients will have no way of obtaining torcetrapib for use with another statin that might be better for them. *Id.* By combining the two pills, patients will not be able to take torcetrapib without Lipitor, even if Lipitor is not the safest and most effective statin for them. "The torcetrapib-Lipitor bundling studies illustrate where this trend

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[10] *See also* Young & Ostrow, *Pfizer's strategy criticized - New Cholesterol Drug Bound to Old*, Detroit Free Press (June 23, 2005), http://www.freep.com/money/business/pfizer23e_20050623.htm.

[11] People with different genetic make-ups respond differently to many medicines. Some people metabolize a drug before it can act. Because people have different genetic make-ups some genetic researchers believe that many drugs only work in a third to a half of the patients who take them. *See, e.g.*, Andy Coghlan, *Blockbuster Challenge*, New Scientist Magazine (June 12, 2004), *available at* http://www.sciencejobs.com /insider/article.action?article.id=insider105&focusId=uk.

can lead. The current trial designs may not optimally meet the scientific needs of prescribers, the clinical needs of patients, the economic needs of payers, or the regulatory needs of policymakers. But they superbly meet the business needs of the sponsor - to create new knowledge in a way that will protect the market share of the largest drug company's most important product." *Id.* at 2575. For patients, the tying of these two drugs in one combination pill limits their medical choices and serves no purpose other than the suppression of competition.[12]

Another combination drug is Vytorin, a combination of Zetia, a Schering-Plough drug and Zocor, Merk's statin. *See* Aaron Smith, *Vytorin outsells rival cholesterol drugs,* CNN Money (July 26, 2005), http://money.cnn.com/2005 /07/26/news/fortune500/vytorin/ ("...Zocor is the second most profitable statin. However, the drug's patent is set to expire June 2006. Drug sales generally plummet when a name brand goes generic, but Merck hopes to continue making revenue from Zocor by including it in Vytorin."). Again, the market power held by the pharmaceutical company in the tying product facilitates their ability to tie it to the sale of an un-patented drug, injuring competition in the market for the tied product.

Yet another example of tying through combination pills involves Chicago-based Abbott Laboratories. The maker of the extremely unique and powerful AIDS "booster" drug called Norvir. Abbott bundled Norvir with its own protease inhibitor (PI) drug, Lopinavir, which was but one of several PI's

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[12] Pfizer also has another combination drug involving atorvastatins. Caduet is a combination pill that treats both high blood pressure and high cholesterol. *See Pfizer's Caduet Debuts Nationwide to Treat High Blood Pressure and High Cholesterol,* Pfizer News Release (June 23, 2004), *http://www.pfizer.com/pfizer/are/news_releases/2004pr/mn_2004_0623.jsp.* According to the Orange Book, Caduet is a combination of amlodipine besylate and atorvastatin calcium. Pfizer's exclusivity period on amlodipine besylate alone (marketed as Norvasc) expires in 2006-2007. But by combining it with atorvastatin calcium, their exclusivity period may extend to 2018.

available in the marketplace. The Norvir/Lopinavir combination drug is called Kaletra. Although Abbott still manufactures Norvir separately, patients who did not buy Kaletra (Norvir bundled with Lopinavir) were forced to pay a much higher price for Norvir. The result of this pricing strategy was a 400 percent increase in the price of patented Norvir to patients who did not buy Abbott's bundled drug, Kaletra.[13] Abbott is capable of accomplishing this "forcing" because of the market power it has in the AIDS "booster" market, which is a direct result of it having a patent on its "booster," Norvir.

The possibilities of drug manufacturers combining two drugs in one pill are endless and, as a result, the possible economic and health consequences for the public from such arrangements should be recognized and addressed. Medically, the soundness of fixed drug combinations, as opposed to flexible combinations of separate drugs, is debatable. Marcia Angell, *The Pharmaceutical Industry: To Whom is It Accountable?*, 342 New Eng J. Med. 1902, 1903 (2000). Economically, there remains a powerful truth in the common sense observation of Justice Frankfurter that in many cases "[t]ying agreements serve hardly any purpose beyond the suppression of competition." *Standard Oil Co. v. United States*, 337 U.S. 293, 305-306 (1949). Legally, pharmaceutical companies should not be given free reign to limit competition to their products that go off-patent through tying arrangements with new patented drugs. Such free reign left unmonitored by antitrust law would cause substantial harm to the public.

Although the case currently before the Court admittedly does not involve pharmaceutical products, Petitioners have

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[13] *See* The Prescription Access Litigation Project, *PAL Challenges Abbott on 400% AIDS-Drug Price Hike*, 9 PAL News (Summer 2004), http://www.communitycatalyst.org/resource.php?doc_id=66; Vanessa Fuhrmans, *Abbott Lifts Price of Norvir 400%: Cost of Longtime HIV Drug Jumps, Reigniting Debate Over Drug Pricing Policies*, Wall St. J. (Dec. 19, 2003), http://www.aegis.com/news/wsj/2003/WJ031209.html.

nonetheless asked the Court to change antitrust law for the entire spectrum of patentable technology. This is a broad request, which should be met with equally broad consideration. Further, it is not the intent of AARP, PUBPAT and CU to argue that the presumption *only* makes sense with respect to pharmaceutical products, but rather that the presumption makes sense with respect to many technologies. Pharmaceuticals are merely an example of significant concern to our members and constituency.

III. MAINTAINING THE PRESUMPTION WILL NOT LEAD TO AN OUTBREAK OF LITIGATION

Various *amici* in this case note the high cost of antitrust litigation and the burden of those costs on mid and small size businesses and start-up companies. (*See, e.g.*, AIPLA Br. 11-12.) They continue to argue that maintenance of the presumption that a patent confers market power on its owner in the market for the patented product would result in an outbreak of expensive and burdensome litigation. That result, however, has not been observed in the many decades during which the presumption has existed. Therefore, it is difficult to see how keeping the law the same would cause a dramatic rise in litigation. Further, there will always be a presumption one way or the other: either patents are presumed to confer market power on their owner or they are presumed not to confer market power on their owner. What Petitioner and its *amici* seem to really desire is a dramatic shift in the law of tying cases that they hope will make it harder for plaintiffs to prevail and, as such, discourage potential plaintiffs from bringing tying claims at all. To be sure, we could reduce the amount of litigation by stating that nothing a company does can violate any antitrust law, but such would obviously be disastrous policy.

CONCLUSION

The presumption that a patent confers market power on its owner is just as correct today as it has been throughout the sixty years that this Court has recognized it. The Federal Circuit's

decision should be affirmed.

Respectfully submitted,

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(20)

No. 04-1329

In the Supreme Court of the United States

ILLINOIS TOOL WORKS, INC. AND TRIDENT, INC.,
Petitioners,
v.
INDEPENDENT INK, INC.,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF *AMICI CURIAE* AMERICAN ANTITRUST INSTITUTE, AMERICAN LIBRARY ASSOCIATION, AMERICAN ASSOCIATION OF LAW LIBRARIES, ASSOCIATION OF RESEARCH LIBRARIES, SPECIAL LIBRARIES ASSOCIATION, CERTIFIED AUTOMOTIVE PARTS ASSOCIATION, COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION, AUTOMOTIVE PARTS REMANUFACTURERS ASSOCIATION, PRODUCTION ENGINE REMANUFACTURERS ASSOCIATION, SERVICE STATION DEALERS OF AMERICA & ALLIED TRADES, TIRE INDUSTRY ASSOCIATION AND VALUECLICK, INC. IN SUPPORT OF RESPONDENT

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Question Presented for Review

Whether, in an action under Section 1 of the Sherman Act, 15 U.S.C. § 1, alleging that the defendant engaged in unlawful tying by conditioning a patent license on the licensee's purchase of a non-patented good, the plaintiff must prove as part of its affirmative case that the defendant possessed market power in the relevant market for the tying product, or market power instead is presumed based solely on the existence of the patent on the tying product?

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BRIEF OF *AMICI CURIAE* AMERICAN ANTITRUST INSTITUTE, AMERICAN LIBRARY ASSOCIATION, AMERICAN ASSOCIATION OF LAW LIBRARIES, ASSOCIATION OF RESEARCH LIBRARIES, SPECIAL LIBRARIES ASSOCIATION, CERTIFIED AUTOMOTIVE PARTS ASSOCIATION, COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION, AUTOMOTIVE PARTS REMANUFACTURERS ASSOCIATION, PRODUCTION ENGINE REMANUFACTURERS ASSOCIATION, SERVICE STATION DEALERS OF AMERICA & ALLIED TRADES, TIRE INDUSTRY ASSOCIATION AND VALUECLICK, INC. IN SUPPORT OF RESPONDENT

September 28, 2005

Statement of Interest[1]

The American Antitrust Institute (AAI) is an independent, not-for-profit organization whose mission is to increase the role of competition and sustain the vitality of the antitrust laws. This filing has been authorized by the directors of the AAI, Jonathan Cuneo, Esq., Albert H. Foer, Esq., and Professor Robert Lande of the University of Baltimore Law School. The Advisory Board of the AAI consists of more than 85 prominent lawyers, law professors, economists and business leaders (listed on the AAI web site: www.antitrustinstitute.org). The Advisory Board serves in a consultative capacity and their individual views may

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[1]The consent of all parties to the filing of this brief has been lodged with the Clerk. Pursuant to Rule 37.6, *amici curiae* state that no counsel for a party authored this brief in whole or in part, and that no persons other than *amici* or its counsel have made a monetary contribution to the preparation or submission of this brief.

differ from the positions taken by the AAI.

The American Library Association (ALA) is the oldest and largest library association in the world, with over 66,000 members representing school, public and academic libraries as well as library trustees and friends-of-libraries.

The American Association of Law Libraries (AALL) is a not-for-profit educational organization with over 5,000 members nationwide. AALL's mission is to promote and enhance the value of law libraries, to foster law librarianship, and to provide leadership and advocacy in the field of legal information and information policy.

The Association of Research Libraries (ARL) is a not-for-profit association of 123 research libraries in North America. ARL's mission is to influence the changing environment of scholarly communication and the public policies that affect research libraries and the communities they serve.

The Special Libraries Association (SLA) serves 12,000 members in the information profession, including corporate, academic, and government information specialists.

The Certified Automotive Parts Association (CAPA) is an independent, not-for-profit standard setting and quality certification organization. CAPA certification identifies independently produced automotive crash repair parts that meet high quality standards for fit, form, finish, material content and corrosion resistance.

The Computer and Communications Industry Association (CCIA) is a trade association representing companies from all sectors of the information technology industry, employing over half a million workers and generating over $200 billion in annual sales. For 33 years, CCIA has promoted open markets, open systems, open networks and full, fair and open competition.

The Automotive Parts Remanufacturers Association (APRA) represents companies which rebuild and remanufacture motor vehicle parts (except engines) that compete directly with automotive manufacturers' new and rebuilt parts for sale to service stations, garages, fleets, and

individuals.

The Production Engine Remanufacturers Association (PERA) represents companies which remanufacture motor vehicle engines on assembly lines for resale in the motor vehicle aftermarket.

The Service Station Dealers of America & Allied Trades (SSDA) is a non-profit trade association representing twenty state and regional affiliates which represent over 15,000 independent service station dealers nationwide.

The Tire Industry Association (TIA) is a national non-profit trade association with more than 5,000 members, including tire dealers and retreaders, tire and tread rubber manufacturers, tire wholesalers, distributors and suppliers.

ValueClick is a leading provider of services for online advertising with growing e-commerce operations that include the sale of remanufactured ink products through sites such as 123InkJets.com and InkBlvd.com.

The interest of *amici* is to encourage an appropriate balance between intellectual property rights and the principles of competition as embodied in the antitrust laws. *Amici* believe that intellectual property is vital to innovation, but that excessive protection can be as harmful as too little. In addition, *amici* in this filing broaden and balance the economic perspective with respect to the issues raised in this case.

Summary of the Argument

Amici curiae argue herein that when competition is harmed in a market separate from the market for a patented product due to tying, the rebuttable presumption that shifts the burden of going forward with evidence to a defendant that claims not to have sufficient power to force the tie should be retained.

First, *amici* argue that the presumption embodied in this Court's precedent is based on sound economic reasoning. Products that incorporate patented technology are typically differentiated from competing, non-infringing

products, and such differentiation usually confers on the seller some degree of pricing discretion. When such pricing power is used to charge a premium over the price of competitive products, antitrust values are not offended. However, when such power is used to force a buyer to purchase a product in a separate market such conduct is subject to antitrust scrutiny. In cases in which the tying product is patented but the defendant claims no power to force the tie, logic and judicial economy dictate that the burden should be on the defendant to show that it belongs to the minority of cases in which the seller of a patented product lacks forcing power, and not on the plaintiff to prove otherwise.

Secondly, it is fundamental that a patentee has no legal right to exclude competition beyond the statutory patent grant. Antitrust doctrine properly reflects this limitation through a policy in which such exclusion constitutes unlawful anticompetitive conduct. The rebuttable presumption at issue reflects and furthers this procompetitive policy.

Argument

I. THE REBUTTABLE PRESUMPTION ESTABLISHED BY THIS COURT THAT A PATENT CONVEYS ECONOMIC POWER SUFFICIENT TO FORCE A TIE IS LONG-ESTABLISHED UNDER THIS COURT'S PRECEDENTS, WAS NOT ABROGATED IN *JEFFERSON PARISH*, AND SHOULD NOT BE ABROGATED NOW.

Historically, in the context of an allegation of *per se* unlawful tying under § 1 of the Sherman Act, "[t]he requisite economic power [in the tying product market] is presumed when the tying product is patented or copyrighted." *Loew's, Inc. v. United States*, 371 U.S. 38, 45-46 (1962). Courts since have "presumed a seller's market power in the tying product when it was patented or

copyrighted." Herbert Hovenkamp, *Federal Antitrust Policy*, (3d ed. 2005) § 10.3c (citations omitted). The presumption is rebuttable. *Id.* The genesis of this rebuttable presumption as it pertains to patented goods has been traced to *International Salt Co. v. United States*, 332 U.S. 392 (1947). See *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2, 37 (1984) (O'Conno_, J., concurring) ("In International Salt, supra the Court assumed that a patent conferred market power ... ").

A. The Power Presumed by the Rebuttable Presumption is Not Monopoly Power.

The *Loew's* Court characterized what it meant by the "requisite economic power" in some detail, rejecting outright the notion that market power in the sense of § 2 of the Sherman Act was required:

> The standard of illegality is that the seller must have 'sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product....' Market dominance—some power to control price and to exclude competition—*is by no means the only test of whether the seller has the requisite economic power. Even absent a showing of market dominance, the crucial economic power may be inferred from the tying product's desirability to consumers or from uniqueness in its attributes.* [fn]
>
> [fn] Since the requisite economic power may be found on the basis of either uniqueness or consumer appeal, and since market dominance in the present context *does not necessitate a demonstration of market power in the sense of Section 2 of the Sherman Act,*

> it should seldom be necessary in a tie-in sale case to embark upon a full-scale factual inquiry into the scope of the relevant market for the tying product and into the corollary problem of the seller's percentage share in that market. *This is even more obviously true when the tying product is patented or copyrighted, in which case ... sufficiency of economic power is presumed.* Appellant's reliance on *United States v. E.I. du Pont de Nemours & Co.*, 351 U.S. 377 (1956) is therefore misplaced.

371 U.S. at 45 (emphasis added).

The straightforward economic rationale on which the rebuttable presumption rests, therefore, is that unique or differentiated products or services typically are able to command higher prices in the marketplace than are competing generic products. For this reason, sellers of differentiated products can usually raise prices above marginal costs. The premium over the price that would obtain in a perfectly competitive market arises when competitive substitutes are at best "similar" or perhaps "very close," but not "perfect." As the *Loew's* Court recognized, market power due to product differentiation—also sometimes called *pricing power*—may stem from a product's "desirability to consumers or from uniqueness in its attributes," 371 U.S. at 45, or when a "product is patented or copyrighted." *Id.*, at n. 4. Clearly, market dominance over or monopolization of the tying product market is not required.

The rebuttable presumption that a patentee possesses power sufficient to force a tie by virtue of his patent, therefore, constitutes judicial recognition of an elementary microeconomic principle and an irrefutable fact. The elementary principle is that the demand curve facing sellers of differentiated products slopes downward, *i.e.*, sellers of such products typically possess some degree of pricing

power due to differentiation that allows them to charge a premium over the perfectly competitive price. The unambiguous fact is that patented products are, by law, differentiated to the extent described by valid patent claims. Fundamentally, the rebuttable presumption is economically justified because patented products are differentiated *de jure*.[2]

The standard that the power in the tying market required for *per se* condemnation of a tie-in agreement need only rise to the level of pricing power enjoyed by sellers of differentiated products has never been repudiated and continues to represent well-established law. Moreover, in recent years the rebuttable presumption with respect to patented products has been reaffirmed repeatedly. For example, in *Fortner Enterprises, Inc. v. United States Steel Corp.*, 394 U.S. 495 (1969) (*Fortner I*) this Court made clear that for the purpose of determining whether the seller of a tying product possesses sufficient power to force a tie

> [t]he standard of 'sufficient economic power' does not ... require that the defendant have a monopoly or even a dominant position throughout the market for the tying product. Our tie-in cases have made *unmistakably clear* that the economic power over the tying product can be sufficient *even though the power falls far short of dominance* and even though the power exists only with respect to some of the buyers in the market.

394 U.S. at 502 (emphasis added).

Eight years later, in *United States Steel Corp. v. Fortner Enterprises, Inc.*, 429 U.S. 610 (1977) (*Fortner II*), this

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[2]This reasoning applies as well to copyrighted or trademarked products. Accordingly, precedents in these contexts are relied on herein. However, such reliance is not intended to advocate enlargement of the issue with respect to patented tying products now properly before this Court.

Court reiterated that its

> decisions do not require that the defendant have a monopoly or even a dominant position throughout the market for a tying product. They do, however, focus attention on the question whether the seller has the power, within the market for the tying product, to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market. In short, the question is whether the seller has some advantage not shared by his competitors in the market for the tying product.

429 U.S. at 620.

More recently, in *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2 (1984), this Court explained that

> the essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms. When such "forcing" is present, competition on the merits in the market for the tied item is restrained and the Sherman Act is violated.

466 U.S. at 12. Indeed, a seller is likely to have the economic power to engage in such "anticompetitive forcing" if the government has granted the seller a patent, whereupon "it is fair to presume that the inability to buy the product elsewhere gives the seller market power." *Jefferson Parish*, 466 U.S. at 16 (citing *Loew's*).

As remarked upon by the court of appeals in this case, this Court has "consistently reaffirmed" the presumption in

patent and copyright tying cases. The Court's cases in this area

> squarely establish that patent and copyright tying, unlike other tying cases, do not require an affirmative demonstration of market power. Rather, *International Salt* and *Loew's* make clear that the necessary market power to establish a § 1 violation is presumed. The continued validity of *International Salt* and *Loew's* as binding authority, and the distinction between patent tying and other tying cases that was articulated in *Loew's*, have been consistently reaffirmed by the Court ever since.

Pet. App. 7a, 396 F.3d at 1348–9 (footnote omitted).

Accordingly, there can be no basis for the proposition, expressed by the district court below, that this Court's "vintage cases" no longer express current law, or that the Court's rebuttable presumption of market power based on patents "arose at a time when genuine proof of power in the market for the tying product was not required." Pet. App. 34a, n.10. This misstatement, repeated with apparent approval by the government in its *amicus* brief (Gov't. Br. 3), may be based on a misapprehension over the holding in *Jefferson Parish* or it may reflect a type of revisionism in which the concurrence rather than the plurality in that case carries the day. The entire statement, taken by the district court from Phillip E. Areeda, *et al. Antitrust Law* ¶ 1737a (1996), reads:

> Although most such inferences arose at a time when genuine proof of power in the market for the tying product was not required, the Supreme Court's *Jefferson Parish* opinion demanded real proof of such power and yet appeared to allow its inference from patents.

Id. This statement by its own terms does not stand for the proposition that is represented, *i.e.*, that this Court in *Jefferson Parish* repudiated the rebuttable presumption at issue.

To be sure, the concurrence in *Jefferson Parish* was highly critical of the presumption, opining that it was based on a "common misconception ... that a patent or copyright, a high market share, or a unique product that competitors are not able to offer suffice to demonstrate market power." *Jefferson Parish*, 466 U.S. at 37 (O'Connor, J., concurring). Yet in the introductory paragraph to Part II, the concurrence seemed to make just such a presumption, stating that "[m]arket power in the *tying* product market may be acquired legitimately (*e.g.*, through the grant of a patent)." 466 U.S. at 35 (emphasis in original). The discussion then conflates two distinct concepts of market power, obscuring the economic rationale underlying the rebuttable presumption.[3]

Nonetheless, what must at this point be clear is that no credible or responsible contention can be advanced that the rebuttable presumption was either overturned by the plurality opinion in *Jefferson Parish* or, as some have suggested, that it never existed in the first place, or, if it does, that it does not occupy a legitimate position within the bounds of this Court's antitrust jurisprudence.[4]

Clearly, as articulated by this Court in *Loew's*, the

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[3]The example in the concurrence in which a "flour monopolist" ties sales of its product to sugar is unfortunate. Flour is a standardized commodity that is likely to be traded in vigorously competitive markets that are well-approximated by a model of perfect competition. Accordingly, the *only* way a seller of flour could garner sufficient market power to force a tie is if it were a monopolist. However, a tying defendant need not be a monopolist to possesses sufficient economic power to force the tie.

[4]*See, e.g.*, Brief of *amici* Motion Picture Association of America, *et al.*, at 5 (arguing that "no settled rule of presuming antitrust market power from intellectual property ownership emerges from either [*Loew's*] or the precedent on which it rests").

Fortner cases, and in *Jefferson Parish*, a limited rebuttable presumption is available to plaintiffs alleging *per se* tying violations of § 1 of the Sherman Act that allows a court to presume that the seller of a patented product possesses enough power to enable him to force a tie to a product or service trading in a separate market.[5]

This is a far milder form of economic power than is ordinarily conveyed by the use of the term "market power," and certainly not the level of economic power conveyed by the terms "monopoly power" or "dominance." These latter concepts are associated with monopolization law, § 2 of the Sherman Act, and, by some scholars, with a market share in excess of 50%.[6] Contrast with this the *Antitrust Guidelines for the Licensing of Intellectual Property*, 4 Trade reg. Rep. (CCH) ¶ 13,132, § 4.3 (1995), which suggest that a restraint in a license must affect at least twenty percent of the relevant market before it will draw antitrust scrutiny, or *Jefferson Parish*, which is often cited for the proposition that the market share in the tying product market must be greater than thirty percent. *See* Herbert Hovenkamp, *Federal Antitrust Policy* (3d ed. 2005), § 10.3a ("Recent cases have generally refused to condemn tying arrangements on market shares smaller than 30% of the tying product market") (collecting cases).

The conflation of two types of economic power, one that corresponds to market dominance and another to the power to force a tie, probably accounts for much of the hyperbole and even alarm expressed by Petitioners and their *amici*. For example, Petitioners contend that the presumption is "the very embodiment of a 'formalistic' doctrine that is flatly

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[5] *See* Note, 79 Yale L.J. 86, 93-94 (1969) cited in *Fortner II*, 429 U.S. at 620 ("whenever there are some buyers who find a seller's product uniquely attractive, and are therefore willing to pay a premium above the price of its nearest substitute, the seller has the opportunity to impose a tie to some other good").

[6] Einer Elhauge, *Defining Better Monopolization Standards*, 56 Stan. L. Rev. 253, 257 (2003).

inconsistent with market reality." Pet. Br. 13.

However, only after the level of market power subject to the presumption is understood to be no more than some pricing power with respect to the patented good's next closest substitute, rather than monopolization or dominance of the tying product market, can it be seen that the presumption yields an accurate reflection of market reality. In particular, the rebuttable presumption implicitly adopts a realistic model of the market in which the seller of a patented product faces a downward-sloping demand curve rather than a horizontal demand curve corresponding to a perfectly competitive market. When a seller attempts to raise his price above the prevailing "market price" in perfectly competitive markets the quantity he sells immediately drops to zero. This is unlikely to be the case for the seller of a patented product.

It should be noted that substituting monopoly as the market power requirement subject to the rebuttable presumption, as Petitioners, their *amici*, the government, and many commentators tend to do, need not be openly declared. Such substitution can be accomplished inconspicuously simply by refusing to admit the possibility of imperfectly competitive markets, or by mixing contexts.

For instance, the government relies heavily in its *amicus* brief on the fact that as a matter of enforcement policy the Department of Justice and the Federal Trade Commission have rejected the presumption that patents confer market power. Br. Gov't. 13, citing *Antitrust Guidelines for the Licensing of Intellectual Property*, 4 Trade reg. Rep. (CCH) ¶ 13,132, § 2.2 (1995). However, even if reliance by a law enforcement agency on such a presumption were as "demonstrably unsound" as the government claims, a rebuttable presumption relied on by a *court* is entirely different because a presumption in that context operates merely to shift the burden of going forward with evidence on a particular issue. In quoting the reasoning given in the *Guidelines* for eschewing the presumption, moreover, the government attempts to

obscure this distinction between prosecutorial policy and trial procedure by omitting the following footnote:

> The Agencies note that the law is unclear on this issue. *Compare Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2, 16 (1984) (expressing the view in dictum that if a product is protected by a patent, "it is fair to presume that the inability to buy the product elsewhere gives the seller market power") *with id.* at 37 n.7 (O'Connor, J., concurring) ("[A] patent holder has no market power in any relevant sense if there are close substitutes for the patented product."). *Compare also Abbott Laboratories v. Brennan*, 952 F.2d 1346, 1354-55 (Fed. Cir. 1991) (no presumption of market power from intellectual property right), *cert. denied*, 112 S. Ct. 2993 (1992) *with Digidyne Corp. v. Data General Corp.*, 734 F.2d 1336, 1341-42 (9th Cir. 1984) (requisite economic power is presumed from copyright), *cert. denied*, 473 U.S. 908 (1985).

Id., at § 2.2, n.10. *See also MCA Television Ltd. v. Public Interest Corp.*, 171 F.3d 1265 (11th Cir. 1999) (seller of copyrighted television programs presumed to possess sufficient economic power to force a tie) and *Digital Equipment Corp. v. Uniq Digital Technologies, Inc.* 73 F.3d 756 (7th Cir. 1996) (market power not presumed for seller of proprietary computer systems).

It is revealing that the courts that are careful to put the market power requirement in the relevant context generally uphold the rebuttable presumption. For example, in *Capra Inc. v. Ward Foods Inc.*, 536 F.2d 39, 48 (5th Cir. 1976) the court observed that the market power requirement ordinarily requires

> a factual assessment of the tying product's uniqueness and desirability, not its market power in the sense of a Section 2 Sherman Act violation. Uniqueness, of course, presupposes that competitors are in some way foreclosed from offering the distinctive product. *Fortner* points out ... that such barriers may be legal, as in the cases of patented or copyrighted products. Trademarks surely may be included in the list of such legal restraints, and, as with copyrighted material, the mere presence of competing substitutes is insufficient to destroy the legal, and more importantly the economic, distinctiveness of the trademark.

Id. (citations omitted), quoted with approval in *Digidyne Corp. v. Data General Corp.*, 734 F.2d at 134, in support of the notion that the analysis of market power in a tying product market is "quite different" from a § 2 analysis of market power.

Similarly, scholarly articles, such as those cited by the government that rail against the "traditional, though ill-conceived notion that the patent laws create 'monopolies'," (Br. Gov't. 13, n.5) frequently conflate different concepts of market power by employing analyses that only permit markets that are either perfectly competitive or completely monopolized. Such a view, of course, ignores most actual markets in today's economy, *e.g.*, monopolistic competition, oligopoly, or duopoly.[7] For instance, the government cites Edmund W. Kitch, *Elementary and Persistent Errors in the Economic Analysis of Intellectual Property*, 53 Vand. L. Rev 1727, 1729–31 (2000), for the proposition that the "presumption that intellectual property rights are always associated with market power is an 'elementary' error." Br.

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[7] *See, e.g.*, Edward H. Chamberlin, *The Theory of Monopolistic Competition* (8th ed., 1962).

Gov't. 11. But the economic analysis in the cited article limits itself to a framework in which markets are either completely monopolized or perfectly competitive. There is no room in such a cosmology for imperfect competition or for the notion of market power in a competitive setting. Such a simplistic either-or model is facially inadequate to address the issues raised by the rebuttable presumption. Under such limitations, a market power requirement in the tying product market—if it means anything at all—means that all patents create economic monopolies, an overstatement of the rebuttable presumption at issue that bears no relationship to real markets throughout today's economy.

In sum, a determination that a tying agreement is a *per se* unreasonable restraint of trade under § 1 of the Sherman Act does not require the seller of the tying good to be a monopolist in the tying good market. This proposition is not only self-evident from the past pronouncements of this Court but also completely consistent with the apportionment under the Sherman Act of matters involving monopolization to § 2, 15 U.S.C. § 2, and matters involving competition-restraining agreements to § 1, 15 U.S.C. § 1.

Reflecting this distinction is this Court's recognition that "[m]onopoly power under § 2 requires ... something greater than market power under § 1." *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451, 481 (1992). But as one commentator has pointed out

> [t]o an economist, the distinction is theoretically puzzling: A firm either enjoys a downward-sloping demand curve or it doesn't. But courts and regulators sensibly recoil from that conclusion because it would make antitrust far too sweeping given that, in our brand-differentiated world, just about every producer has a brand name that enables it to enjoy a downward-sloping demand curve and thus has some pricing discretion. This is a problem that has only

> gotten worse over time, as we have moved from an economy that tends to focus on mass-produced, homogeneous commodities to an economy that focuses on providing not only brand-differentiated products but services and experiences that inevitably enjoy some pricing discretion.

Einer Elhauge, *Defining Better Monopolization Standards*, 56 Stan. L. Rev 253, 258 (2003). The conclusion that emerges when monopoly or pure competition are the only market structures under which tying market power may be analyzed is a prime example of economics that is "far too sweeping" for antitrust law.

The primary grounds advanced for the repudiation of the rebuttable presumption in this case, however, are the arguable worthlessness of most issued patents and its corollary, that most patents convey not a whit of market power. But most issued patents are not used to force tying arrangements. More fundamentally, the argument in question is merely another way of saying that the rebuttable presumption only makes sense when applied to patented products for which some positive quantity is demanded in the marketplace. Such a "non-zero constraint" may be necessary for *any* discussion of markets to make sense, but it is so broadly necessary and universally assumed that it becomes a trivial consideration. Legions of worthless patents are not enough to rebut the presumption in an actual case. Courts should continue to be authorized to presume, subject to rebuttal, that the seller of a *particular* patented good or process being used as a tying product possesses sufficient power to force the tie. A high proportion of worthless patents does not affect the likelihood that a patented product faces at most imperfect competition. Neither does the existence of such patents advance a rational argument for repudiating the rebuttable presumption.

Given the clear legal history, the sound justifications for

following precedent and adherence to the principle of *stare decisis*, those who advocate a departure from it bear a heavy burden to show not only the need for such a new policy but also that the practical implications will be positive.

B. A Presumption that Sellers of Patented Products Possess Some Discretion over Price Reflects Sound Economic Reasoning Because Patent Rights And Patented Inventions Do Not Compete Against Perfect Substitutes.

The ideal of perfect competition, in which all sellers are "price-takers" rather than "price-setters," closely and profitably approximates some markets, such as markets for standardized or undifferentiated commodities or shares of highly liquid securities. Patented products, however, are unlikely to trade in such markets, and patentees selling patented products are not likely to be price-takers. The perfect competition paradigm is inappropriate for patented products, and the rebuttable presumption merely reflects that this will almost always be the case.

The fact that competitive non-infringing substitutes may result in competition in the relevant tying product market does not alter the prohibition against competing products that infringe the patent or the fact that a patent ordinarily serves to differentiate a product from competing substitutes. In other words, patented products typically cannot be generic, fungible, or have perfect substitutes. Accordingly, the most sensible way to model the process in which patented products trade is imperfect competition.

Models of imperfect competition are not new, which raises the question of what, if anything, has changed so dramatically since the emergence of the presumption more than half a century ago that now renders it a formalism inconsistent with reality? It is reasonable to assume that the *Loew's* Court was familiar with the truism, repeated *ad nauseam* by Petitioners and their *amici*, that some out-

sized majority of issued patents are commercially worthless. Combining this observation with a market power requirement satisfied only by monopolization in the tying market, a nonsensical proposition emerges, to wit: all patents confer monopoly power. This distortion bears no relation to the rebuttable presumption that Petitioners and its *amici* now ask this Court to overturn.

These economic principles are not "laws of nature." Rather, they represent expectations based on economic reasoning. In the unusual or counterintuitive case the patentee is entitled to adduce rebuttal evidence that he is a price-taker, that other non-infringing products are perfect substitutes, or that other facts rebut the expectation that a patentee possesses the degree of power embodied in the presumption.

C. In an Action Under § 1 of the Sherman Act Alleging that a Tying Arrangement is Unlawful *Per Se*, the Requirement of Market Power in the Tying Product Market Screens Out Cases in which the Tying Product is Competitively Supplied.

In light of the fact that the Court's tying doctrine admits of the case in which the market for the tying product is competitive (albeit, imperfectly so), it is appropriate to inquire into the purpose of requiring market power in the *tying* product market in the first place, particularly when the competitive harm is alleged, as in the present case, to have occurred in the market for the *tied* product, which in this instance is the product sold by Respondent, ink formulated for use with Petitioner's patented print-heads. Petitioner's antitrust claim hangs on the ultimate issue of whether the arrangement tying ink to the right to use or sell the patented print-head constitutes an unreasonable restraint of trade. The trade being restrained is the trade in ink, not the trade in products that compete with Respondent's print-heads.

Since the antitrust offense does not require monopoly (or even near-monopolization) in the tying product market, the only coherent economic rationale by which market power should be required in that market is to ensure that the tying defendant possesses sufficient economic power to force the tie. In the absence of such power the tying allegation and the associated claim of adverse effect in the tied product market are economically implausible.

This is because price-takers in a perfectly competitive market by definition do not have enough market power to charge a premium above the "market price," nor, *a fortiori*, to force their customers to purchase a separate tied good to the detriment of competing sellers of the tied product. Therefore, perfect competition in the tying product market bars an unlawful tying claim. The economic inconsistency (and therefore factual implausibility) of price-takers forcing a tie is pressed into service in the form of a market power requirement that screens out tying products sold by price-takers. For the reasons set forth above, this mild requirement can and should in the first instance be deemed to have been met whenever the tying product is covered by a valid patent.

D. In Addition to Market Power Sufficient to Force a Tie, Other Stringent Prerequisites Must Be Satisfied Before any Tying Arrangement May Be Found to be Unlawful *Per Se*.

Even a plaintiff that avails itself of the rebuttable presumption must still overcome formidable burdens to establish make for unlawful tying. It is unlikely, therefore, that even the complete elimination of the economic power requirement in the tying product market would lead to the flood of meritless litigation and false positives that Petitioners and its *amici* predict and claim to seek to avoid by eliminating the rebuttable presumption. See Br. Gov't. 27. In the same vein, Petitioners argue that the rebuttable

presumption permits "deficient claims [to] survive motions to dismiss and for summary judgment." Br. Pet. 33. However, such concerns are misplaced. The tying product market power requirement is only one among several requirements that must be established before a defendant may be found to have violated the § 1 *per se* prohibition on certain tying arrangements. A typical enumeration of the elements of a *per se* tying violation is

> 1) that there are two separate products, a "tying" product and a "tied" product;
> 2) that those products are in fact "tied" together—that is, the buyer was forced to buy the tied product to get the tying product;
> 3) that the seller possesses sufficient economic power in the tying product market to coerce buyer acceptance of the tied product; and
> 4) foreclosure effect on a "not insubstantial" amount of interstate commerce in the market of the tied product.

Thomson v. Metropolitan Multi-List, Inc., 934 F.3d 1566 1574 (11th Cir. 1991), *cert. denied*, 506 U.S. 903 (1992). Some courts add a further requirement that the tying company have an economic interest in the tied product. See *Keener v. Sizzler Family Steak Houses*, 597 F.2d 453 (5th Cir. 1979). In addition, a tying plaintiff must show "antitrust injury" and overcome any defense to these elements, including business or technical justifications for the tie.

Indeed, abolishing the rebuttable presumption is more likely to discourage the filing of well-founded antitrust claims because of the unnecessary burden it would place on plaintiffs to provide the court with an analysis of the tying product market in all cases, whether necessary or not.

E. The Rebuttable Presumption At Issue Does Not Risk Inhibiting Innovation, Procompetitive Marketing, or Other Efficiency-Enhancing Conduct.

Neither Petitioners nor their *amici* advance any persuasive procompetitive justification for tying a patented product to a separate, non-infringing product. The government, urging that the rebuttable presumption "conflicts with the procompetitive policies of the antitrust laws," alludes in a final footnote to certain practices that supposedly "enhance consumer welfare in a variety of ways through, for example, economies of joint sales, quality assurance, protection of goodwill, and cheating on a cartel price." Br. Gov't 29 n. 23 (citations omitted).

How such speculative benefits depend on forced tying of a single, patented print-head technology license to the obligation to purchases of all the ink used with it from a specific vendor is not spelled out. Admittedly, "economies of joint sales" justified a degree of leniency in *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*, 441 U.S. 1 (1979). Moreover, as the Intellectual Property Owners Association suggests, "bundling very large numbers of unrelated information goods can be quite profitable." Br. IPOA 14.

But *Broadcast Music* was decided in the context of permitting a non-forced blanket license instead of requiring what could have been for some licensees thousands of separately negotiated licenses for song performance rights. In that case, the efficiencies to be achieved from the blanket license were obvious and not, as in the present case, left to the imagination. The option of separate licenses was also a critical factor in the Court's determination to apply the rule of reason; forced tying was clearly not necessary to achieve the efficiencies available from a blanket license offering. Since the present case does not involve a database (i.e., "large amounts of information goods") or a catalogue of tens of thousands of song titles, the theoretical possibility of

efficiencies in those cases seems inapposite. Without so much as even a *theoretical* showing of how the joint sale of the products in the case now before this Court creates "joint sale efficiencies," or why forced tying is the only way to achieve them, the claim that they do amounts to little more than vacuous sloganeering.

The same type of criticism can be made against the government's mention of "quality assurance" and "protection of goodwill" as procompetitive justifications for the tie in this case. This justification was given short shrift in this Court's decision in *International Business Machines v. United States*, 298 U.S. 131 (1936), where IBM claimed that it was

> essential to the successful performance of the leased [punch card tabulating] machines that the cards used in them conform, with relatively minute tolerances, to specifications as to size, thickness, and freedom from defects which would affect adversely the electrical circuits indispensable to the proper operation of the machines.

IBM, 298 U.S., at 138-39. This Court found that "others are capable of manufacturing cards suitable for use in appellant's machines," just as the record here reveals that Respondent is capable of manufacturing inks suitable for use in Petitioners' ink jet print-heads. The Court held that IBM was

> not prevented from proclaiming the virtues of its own cards or warning against the danger of using, in its machines, cards which do not conform to the necessary specifications, or even from making its leases conditional upon the use of cards which conform to them. For aught that appears such measures would protect its good will, without ... the

suppression of competition.

IBM, 298 U.S. at 139-40. Similarly, here Petitioners' goodwill and its interests in quality assurance can be adequately protected without tying the sale of the print-head to any specific ink.

Similarly, the government suggests that "metering," *i.e.*, extracting a higher payment from intensive users than from less intensive users is a procompetitive justification for tying consumable complementary supplies to the use of a device. This claim is based on the flawed analogy that metering is merely price discrimination which, in some cases, enhances output. But under fairly general assumptions (and thus in most cases), tying reduces output in the tied product market compared to what it would be without it. The output-enhancing effect of price discrimination due to metering based on tying consumables, therefore, would ordinarily be outweighed by the competitive harm in the tied market due to the tie.

Finally, there is no evidence or even allegation of any cartel in this matter, so whatever conceivable procompetitive policy the government may have had in mind in mentioning "cartel pricing" cannot in any sense be relevant here.[8]

Petitioners' wholly unsupported claim that "most tying arrangements are economically beneficial" is unavailing. Br. Pet. 29. There is nothing to indicate that any of the circumstances involved in the instances of "beneficial" tying that they cite apply in the case of print-heads and ink. In

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[8]In contrast to the leap of faith required to conjure up procompetitive justifications for tying, the anticompetitive effects often seem self-evident. *See, e.g.*, Alex Berenson, *Pfizer Stirs Concern With Plans To Sell Heart Drugs Only as Pair*, New York Times, March 7, 2005 (reporting that physicians are critical of a drug company's plan to sell a new heart medication only in combination with its best selling cholesterol treatment because it would effectively bar patients from taking the new medication "with similar drugs not from Pfizer that may work better for them.")

short, there has been no demonstration how the rebuttable presumption at issue in this case conflicts with any procompetitive values of antitrust.

Another claim, that retaining the rebuttable presumption will inhibit innovative activity, has been pressed by Petitioner, the government, and the other *amici*. As the government explains, "a market power presumption that undermines perceived rewards may constitute a drag on innovation or, at a minimum, cause firms with patents to forgo potentially efficient tying arrangements." Br. Gov't 28 (footnote omitted). This passage concludes with a footnote that cites F.M. Scherer, *The Innovation Lottery*, in *Expanding the Boundaries of Intellectual Property* 20 (Rochelle Dreyfuss et al. eds., 2001) for the proposition that "investments in technological and artistic creation are motivated by the longshot hope of a very large reward."

The Scherer quotation is taken out of context and misleading. Immediately preceding the quoted language the author states that "[w]hen corporate hierarchies must decide whether or not to invest substantial sums on the commercial development of an invention, risk aversion, *not skewness affinity*, is almost surely the behavioral norm." *Id.* (emphasis added). The passage quoted by the government refers to a hypothesis about the behavior of a small minority of "nothing-to-lose" entrepreneurs willing to bet excessively relative to the small expected value of a large but highly unlikely return. By contrast, Professor Scherer states, "it seems less likely that decision-making in well-established corporate organizations conforms to the hypothesis." *Id.* In sum, the behavior alluded to by the government is unlikely to apply to the antitrust defendants in this case, which are "well-established corporate organization[s]."

The Intellectual Property Law Association of Chicago (IPLAC) states that "the antitrust presumption against patent owners who commercialize their inventions is effectively a penalty or disincentive to innovate or patent an innovation." Br. IPLAC 11. But this group does not explain

even theoretically how the rebuttable presumption—applied only in tying cases—acts as a disincentive to innovation. If they are arguing that inventors *rely* on the gain to be had from tying patented goods to non-patented goods as a part of their incentive to invent in the first place, it represents a highly unlikely and unorthodox view of the incentives created by the patent system and implies counterfactually that most patent owners engage in tying conduct.

Moreover, no showing has been made that the rebuttable presumption deprives defendants of any opportunity to present evidence that the tying arrangement is efficiency-enhancing or procompetitive. This is probably because when tying impedes competition in the tied market this anticompetitive effect will usually outweigh any output-enhancing effect of price discrimination.[9] Indeed, the lack of any obvious justification for or beneficial effect from the type of tying involved in this case is precisely what justifies the application of *per se* treatment in the first place, even where liability is conditional on a set of prerequisites. See *State Oil Co. v. Kahn*, 522 U.S. 3, 10 (1997) (reaffirming that some forms of restraint on trade "have such predictable and pernicious anticompetitive effect, and such limited potential for procompetitive benefit, that they are deemed unlawful *per se*").

F. Requiring Market Power in the Tying Good Market In Excess of that which is Necessary to Force a Tie Should Not Now Be Instituted as a Prerequisite to Finding that a Tying Arrangement is Unlawful *Per Se*.

Justice White dissented from this Court's denial of

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[9] *See, e.g.*, Michael D. Whinston, *Tying, Foreclosure, and Exclusion*, 80 Am. Econ. Rev. 838 (1990) (demonstrating that by focusing exclusively on the price discrimination effect of tying and ignoring exclusionary effects the "tying-is-benign" economic literature improperly assumes that tying is as likely to be competitively benign as to be harmful).

certiorari in *Data General Corp. v. Digidyne Corp.*, 473 U.S. 908 (1985) (White, J., dissenting) in part because of the need in his view to resolve substantial questions in the area of tying in antitrust law and policy, "including what constitutes forcing power in the absence of a large share of the general market." *Id.*, at 909.

Should the Court now seize the present opportunity to resolve this question, we respectfully urge that it respect and retain the sound economic reasoning in this Court's precedents as interpreted herein and, in any case, decline to impose a monopolization requirement in the tying product market, or to adopt an interpretation of the market power requirement in the tying product market that rises to the standard employed in matters arising under § 2 of the Sherman Act.

To impose a monopolization standard in the tying product market would be to merge § 1 tying law with § 2 monopolization law, and to eviscerate the offense of tying by relegating it to a redundancy. Consistent with modern economic theory, the Court should continue to presume that product differentiation empowers sellers with a degree of discretion over price and, thus, to enable such sellers to force a tie.

G. The Rebuttable Presumption At Issue Promotes Judicial Economy Because It Frequently Obviates a Judicial Inquiry into the Competitive Conditions in the Tying Product Market.

Since the trade alleged to be restrained in the present case is the trade in ink (the tied product) and not the trade in products that compete with Respondent's print-heads (the tying product), the rebuttable presumption in this case allows the district court to avoid an unnecessary analysis of competitive conditions in the tying market, thereby materially contributing to judicial economy. Moreover, it does so without either detracting from a defendant's due

process or other fundamental rights or by imposing any other kind of undue burden.

In cases in which the seller of a patented tying product claims to lack sufficient market power to force the tie being sued upon it is more logical and efficient for the defendant rather than the plaintiff to bear the burden of going forward with evidence on this issue. Such an inquiry should only be required when there is a legitimate issue in the tying market that demands judicial resolution. In those cases, defendants have free reign to develop any and all evidence relevant to whether or not market conditions are such that a forced tie is economically implausible.

Moreover, evidence relevant to the issue of the defendant's economic power to force the tie is more likely to be in the defendant's rather than the plaintiff's possession. Plaintiff's claim in this case concerns antitrust injury and harm to competition in the market for the *tied* product. In light of the requirement that the plaintiff must prove that tied sales actually occurred, unless there is a genuine issue in the *tying* market due to extraordinary competitive conditions there, indicia of product differentiation (such as a patent) should suffice. Where extraordinary conditions do obtain, the defendant and not the plaintiff is more likely to know about conditions in its own market, and have the means to adduce the relevant proof.

II. A PATENTEE HAS NO LEGAL RIGHT TO EXCLUDE COMPETITION IN NON-INFRINGING PRODUCTS, EVEN IF SUCH COMMERCE DEPENDS ON AND IS STRONGLY COMPLEMENTARY TO THE PATENTED TECHNOLOGY.

This Court long ago declared that "a patentee receives nothing from the law which he did not have before, and that the only effect of his patent is to restrain others from manufacturing, using, or selling that which he has invented." *Motion Picture Patents Co. v. Universal Film*

Manufacturing Co., 243 U.S. 502 (1917). In that case, those principles moved this Court to hold that

> whatever the right of the owner may be to control by restriction the materials to be used in operating [a patented] machine, it must be a right derived through the general law from the ownership of the property in the machine, and it cannot be derived from or protected by the patent law, which allows a grant only of the right to an exclusive use of the new and useful discovery which has been made,—this and nothing more.

Id. at 513. This policy is embodied in the doctrine of patent misuse, which bars infringement claims in circumstances in which the patentee has impermissibly broadened the "physical or temporal scope" of the patent grant with anticompetitive effect. *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 343 (1971).

In aligning the antitrust law of tying to affirmatively prohibit such anticompetitive patent extensions, this Court in *Loew's* observed that the cases establishing the patent misuse doctrine "reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products. The patentee is protected as to his invention, but may not use his patent rights to exact tribute for other articles." *Loew's*, 371 U.S. at 45. This proposition is equally valid when the tied market is strongly complementary to the tying market, as when tied replacement parts for the tying product are custom designed. Competition in the tied market may be imperfect for many reasons, including the technical difficulty or expense in competitively supplying such parts. But when a not insubstantial amount of commerce in the tied market is affected not because the products are technically difficult to bring to market but because of restrictive agreements exacted by the seller of the tying product, competition in

that market is unreasonably restrained. The fact that commerce in that market would not exist but for the existence of the tying product does not make the tying agreement any less unreasonably restrictive. Antitrust tying law should continue to prohibit patentees from suppressing competition in markets for non-infringing complementary products.

A. The Rebuttable Presumption at Issue Harmonizes Antitrust Law with Well-Settled Principles of Patent Law.

Under current law, patent law and antitrust tying doctrine are logically aligned. In instances in which a patentee has extended through forced tying the exclusivity granted by the patent so as to satisfy the standard required of the patent misuse defense such a patentee should not only be barred from enforcing its patent through an action for infringement but should also be subject to antitrust liability for the harm to competition and antitrust injury that such conduct has proximately caused. The policy furthered by the patent misuse doctrine in patent cases (which always involve patents) is the same policy served by the rebuttable presumption in tying cases (which sometimes involves patented tying products).

The abrogation by Congress in 1988 of a rebuttable presumption in a patent misuse defense does not alter the equivalence of these policies. Act of Nov. 19, 1988, Pub.L. No. 100-703, § 201, 102 Stat. 4674, 4676, codified at 35 U.S.C. § 271(d)(5) (2000). As the court of appeals in this case observed, while the Senate version of the bill abrogated the rebuttable presumption in the tying sphere, that language was removed in a House amendment, "making clear that Congress was not attempting to change existing law in this respect." 396 F.3d at 1349.

B. Excluding Competition in Lines of Commerce Beyond the Statutory Patent Grant Is Unlawful Anticompetitive Conduct Under the Antitrust Laws.

As this Court pointed out in *Jefferson Parish*, when the seller uses market power to increase the price it charges for a product, "the competitive ideal of the Sherman Act is not necessarily compromised." 466 U.S. at 13-14. In this context, this statement means that a patentee is free to charge whatever price for its invention the market will bear, and not risk offending the antitrust laws. But if the patentee impairs competition on the merits in another market, "a potentially inferior product may be insulated from competitive pressures." *Id.*

Antitrust and competition policy are well-served by a rule that prohibits a patentee from imposing a burdensome tying obligation that is anticompetitive in the tied market. Such a rule promotes the policies of the patent system, and thereby encourages innovation, by bringing antitrust law into harmony with one of the most fundamental precepts of patent law. The rebuttable presumption at issue in this case serves these policies well and should be retained.

Conclusion

For the foregoing reasons, the judgment of the court of appeals should be affirmed.

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IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.,

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

On Writ of Certiorari
to the United States Court of Appeals
for the Federal Circuit

BRIEF OF THE AMERICAN BAR ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF PETITIONERS

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STATEMENT OF INTEREST[1]

The American Bar Association ("ABA"), with over 405,000 members, is the leading national membership organization of the legal profession. Its members come from each of the fifty states, the District of Columbia, and the U.S. territories. Membership is voluntary and includes attorneys in private practice, government service, corporate law departments, and public interest organizations, as well as legislators, law professors, law students, and non-lawyer associates in related fields. ABA members represent the full spectrum of public and private litigants, including plaintiffs and defendants. Among the ABA entities are the Section of Antitrust Law, with over 9,000 members, and the Section of Intellectual Property Law, with over 19,000 members.

This case squarely presents the question whether a court must presume that a patent confers market power for purposes of a tying claim under Section 1 of the Sherman Act. In 1990, the House of Delegates of the ABA adopted a resolution providing that intellectual property rights shall not be presumed to define a market or to establish market power in actions under the antitrust laws.[2] Because the ABA

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[1] In accordance with Supreme Court Rule 37.6, the ABA states that this brief has not been authored in whole or in part by counsel for a party and that no person or entity, other than Amicus, its members or its counsel, has made a monetary contribution to the preparation or submission of this brief.

Neither this brief nor the decision to file it should be interpreted to reflect the view of any judicial member of the American Bar Association. No inference should be drawn that any member of the Judicial Division Council has participated in the adoption of or endorsement of the positions in this brief. This brief was not circulated to any member of the Judicial Division Council prior to filing.

[2] Specifically, the ABA House of Delegates adopted a policy position that favored "in principle legislation such as H.R. 469, 101st Cong., 1st Sess. (1989) (Fish) and S. 270, 101st Cong., 2d Sess. (1989) (Leahy) which provide[d] that intellectual property rights should not be presumed to define a market or to establish market power in actions under the antitrust laws." ABA Section of Patent, Trademark & Copyright Law, *Report and Recommendation to the House of Delegates*, Report No.

represents a uniquely broad spectrum of the American legal community, its perspective on the central issue in this case should be helpful to this Court.[3]

SUMMARY OF THE ARGUMENT

The question presented in this case is narrow and focused. The Court granted certiorari to determine whether, in a claim for unlawful tying under Section 1 of the Sherman Act, "market power in the relevant market for the tying product . . . is presumed based solely on the existence of [a] patent on the tying product." Petition at I. The American Bar Association urges the Court to hold that the answer is no. Contrary to the view of the court below, the ABA believes that this answer is consistent with the Court's prior decisions and the meaning of Section 1. Therefore, the decision of the Court of Appeals for the Federal Circuit should be reversed.

The Federal Circuit held that a presumption of market power must apply where the tying product is patented not because such a presumption is factually supportable, nor because it serves any overriding legal policy. Rather, the Federal Circuit held that the market power presumption was mandated by this Court's prior decisions, especially *United States v. Loew's Inc.*, 371 U.S. 38 (1962).

But the Court of Appeals, like some others, has misread *Loew's*. The "presumption" applied in *Loew's* was not a presumption of actual market power, as the Court's tying

122C (Feb. 1990). The action of the House of Delegates adopting the report is at 115 ABA Reports 42 (1990). The Section report itself is at 115 ABA Reports 1365-70 (1990). In 2001, the ABA reiterated its support for bills that would prevent any presumption of market power in intellectual property cases. *See Market Power and Intellectual Property Litigation: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 107th Cong. 11 (2001) (statement of Charles P. Baker, Chair, ABA Section of Intellectual Property Law).

[3] Both parties have consented to the filing of this brief. The letters of consent are on file with the Clerk of the Court.

jurisprudence now requires. It was, to use the *Loew's* Court's own words, a "presumption of *uniqueness* resulting from the existence of the [intellectual property] itself." 371 U.S. at 48 (emphasis added). Indeed, the *Loew's* Court expressly stated that its references to the "requisite economic power" over the tying product should *not* be confused with actual market power:

> [T]he requisite economic power may be found on the basis of either uniqueness or consumer appeal, . . . [because] market dominance in the present context does not necessitate a demonstration of market power in the sense of § 2 of the Sherman Act . . . .

Id. at 45 n.4. The "presumption of uniqueness" in *Loew's*, moreover, was obviated by this Court's later decisions in which the requirement of "power" in the tying product market was expressly defined to mean actual market power in the sense of power over price.

Neither *Loew's* nor any other decision of this Court has ever applied a presumption of actual market power to decide a case in which the tying product was protected by a patent or copyright. Thus, the ABA does not believe that *Loew's* must be overruled. We emphasize, however, that the question presented is not whether any decisions of this Court must be overturned, or how many, but whether a presumption of market power based on intellectual property alone should be rejected. While the necessity of overruling *Loew's* may be debatable, the American Bar Association respectfully submits that the question presented by the Petition is not.

A. The Presumption Is Baseless And Unworkable.

The ABA adopted its 1990 policy because the market power presumption has no basis in economic reality and therefore unjustifiably reduces incentives to innovate. We are aware of no evidence that the fact of a patent, copyright, or other intellectual property confers market power in all or even a significant majority of cases. The judicial and

academic consensus that any such presumption is unwise, moreover, is overwhelming. As a result, neither the court below nor the Respondent here has cited any economic or legal commentator who currently defends the presumption.

Members of the executive and legislative branches agree that the presumption should be rejected. Both antitrust enforcement agencies have eschewed it in their intellectual property enforcement guidelines, and Congress specifically amended the patent laws to ensure that any claim of "misuse" based on tying would require proof of market power. 35 U.S.C. § 271(d).[4] Even those few courts that have regarded the presumption as mandated by *Loew's*, have made no attempt to defend it.

The presumption is also unworkable, as the anomalies that arise from the Federal Circuit's attempt to apply it in this case demonstrate. To reach the result below, the Federal Circuit concluded that:

(1) a presumption that a patent creates market power in fact is warranted under Section 1 of the Sherman Act, but plays no role whatsoever under Section 2,

(2) the market power presumption must be deemed rebuttable (a conclusion based on "clearly articulated Supreme Court dicta," Pet. App. 15a (the Federal Circuit's opinion reported at 396 F.3d 1342), but it may not be rebutted by evidence going to the heart of any finding of actual market power, that is, the "presence of competing substitutes for the tying product," Pet. App. 16a (internal quotation marks omitted), and

(3) the presumption carries with it a presumed *geographic* market, in which (contrary to existing law and

[4] *See* H. Hovenkamp, M. Janis & M. Lemley, *IP and Antitrust* § 4.2e6, at 4-36 (Supp. 2005) (hereinafter "HJL Treatise") ("It would also be irrational for Congress to immunize patent ties from Patent Act liability only to have them condemned under the Sherman or Clayton Act . . . .").

common sense) every product with a United States patent competes in a market defined as the United States.

These propositions have no basis in the decisions of this Court or the economics of tying arrangements. Rather, they demonstrate the difficulty of applying a presumption with no basis in fact to actual cases. If the Federal Circuit's presumption is not rejected, that difficulty will be visited on every member of the bench and bar struggling with the application of antitrust law to intellectual property.

B. This Court's Decisions Do Not Support The Market Power Presumption.

The lower court's conclusion that it was bound to apply the market power presumption to a patented tying product reflects a fundamental misunderstanding of *Loew's* and this Court's tying jurisprudence.

Many of the Court's early tying decisions condemned tying arrangements included in intellectual property licenses as inherently anticompetitive. A principal rationale employed by the Court during that period was the so-called "leveraging fallacy"—that the patentee was using one monopoly (on the invention) to gain a second monopoly (on the tied product).[5] Although that rationale has not survived the Court's later decisions, it was the primary basis for the findings of *per se* illegality in decisions such as *International Salt Co. v. United States*, 332 U.S. 392 (1947), and *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948).

In the 1950s, the Court decided a tying case for the first time by focusing on the degree of the seller's power in the market for the tying product.[6] In a series of subsequent cases that included *Loew's*, however, the Court emphasized that the requisite "power" was not actual market power, but

[5] *See, e.g.*, W. S. Bowman, Jr., *Tying Arrangements and the Leverage Problem*, 67 Yale L.J. 19 (1957).

[6] *Times-Picayune Publ'g Co. v. United States*, 345 U.S. 594 (1953).

merely a showing of distinctiveness or uniqueness. This showing was easily met in a patent case, "[s]ince one of the objectives of the patent laws is to reward uniqueness . . . ." *Loew's*, 371 U.S. at 46. But, even as these cases found that patents could justify a "presumption of uniqueness" by definition, *id.* at 48, the Court acknowledged that a presumption of actual market power could not be justified, because it was "common knowledge" that patents do not necessarily confer market power. *Northern Pacific Ry. Co. v. United States*, 356 U.S. 1, 10 n.8 (1958).

Loew's was the first and last case in which this Court applied a presumption of any kind to a tying product protected by intellectual property rights. But *Loew's* specifically denied that its "presumption" was the same as the presumption applied by the Federal Circuit below—that a patented tying product may be presumed to confer actual market power. Thus, *Loew's* simply did not ask or answer the question presented here.

The Court's subsequent cases have taken a different approach to the question of "power" in tying cases and have thus undermined the rationale for the *Loew's* "presumption of uniqueness." Beginning with *United States Steel Corp. v. Fortner Enterprises, Inc.*, 429 U.S. 610 (1977) ("*Fortner II*"), the Court has held repeatedly that a tying claim cannot survive unless a plaintiff first pleads and proves that the seller has genuine market power in the tying product. *Fortner II* reversed a judgment of illegal tying based upon jury findings of uniqueness because those findings did not establish actual market power. In 1984, *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2 (1984) ("*Hyde*"), confirmed the rule by rejecting a tying claim in which the seller had only 30 percent of the tying market. Based on these decisions, scholars have concluded that this Court's current requirement of market power in the tying product "would refuse to find sufficient power in *International Salt*, . . . or in decisions such as *Paramount* or *Loew's* . . . ." HJL Treatise, *supra* note 4, § 4.2e4(A), at 4-31.

In its opinion below, the Federal Circuit acknowledged this change in the law of tying, but argued that it occurred only for unpatented products, not patented ones. Pet. App. 6a. The Federal Circuit based this conclusion principally on "dicta" from *Hyde* suggesting that the Court's current market power requirement could be satisfied by the existence of a patent. Pet. App. 9a, 14a-15a. That suggestion, which was immediately challenged by the four concurring Justices, and later questioned by other members of the majority, cannot change the holding of *Loew's*. And that holding did not apply a presumption of *market* power to intellectual property.

C. *Stare Decisis* Does Not Justify Adherence To The Presumption Of Market Power.

In the view of the ABA, the principles of *stare decisis* do not present an obstacle to the Court's rejection of the presumption of market power.

First, this Court overrules only cases in which the principle at issue was necessary to the result. The *Loew's* Court relied on additional evidence of arguable market power that provides alternative grounds for the holding.

Second, if the Court concludes that it must overrule *Loew's* to reverse the judgment below, there are powerful reasons to do so. As improved analysis of economic practices and priorities has evolved, this Court has overruled several prior holdings in the antitrust area, especially in cases challenging assumptions underlying *per se* rules of liability. *See, e.g., State Oil v. Khan*, 522 U.S. 3, 20 (1997) ("*Khan*"). Here, both the overwhelming opposition to the presumption and the continued debate over the meaning of *Loew's* make this an even more compelling case for overcoming *stare decisis*.

Third, *Loew's* has caused uncertainty, not reliance. Accordingly, the ABA does not believe that members of the legal and business community have relied to their detriment on the interpretation of *Loew's* that the Federal Circuit found

controlling here. Rather, the ABA believes that the majority view for the past twenty years that patents do not justify a presumption of market power has been undermined and unsettled by the decisions, including the opinion below, redefining the *Loew's* presumption to mean market power. Any disapproval of *Loew's* that accompanies rejection of the market power presumption would result in clarity and common sense, not disappointed expectations.

ARGUMENT

I. A Presumption That The Existence Of Intellectual Property Rights Implies Market Power Is Unfounded And Unwise.

The presumption of market power applied by the Court of Appeals below has no basis in economic reality or legal policy. In the 1980s, it became clear that, despite this Court's decisions in *Fortner II* and *Hyde*, some lower courts would presume market power from the existence of a patent or copyright,[7] while others would not.[8] The ABA adopted its first resolution opposing the presumption in 1990, and has maintained that position for the reasons summarized by the Chair of the ABA Section of Intellectual Property Law when testifying before Congress in 2001:

> Because such presumptions are arbitrary, ignoring real world facts, they have no proper basis from the point of view of either intellectual property or antitrust law, and they lower incentives created by intellectual property law to invest in new jobs and new industrial facilities based on technical advances.[9]

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[7] *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336 (9th Cir. 1984).

[8] *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665 (7th Cir. 1985); *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673 (6th Cir. 1986).

[9] *See Market Power and Intellectual Property Litigation: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 107th Cong. 11 & nn.1 & 2 (2001) (Statement of Charles P. Baker, Chair, Section of Intellectual Property Law, on behalf of the American Bar Association citing prior testimony by the ABA on this issue) (Mr. Baker's statement is also available at http://www.abanet.org/ intelprop/ marketpower.pdf).

We ask the Court to reject the presumption for two principal reasons:

A. The Presumption Is False.

First and foremost, "whether a patent confers market power is a question of fact, not policy."[10] As the Petition in this case amply demonstrates (Pet. 19-20), there is no empirical evidence that patents confer market power in every case (as the presumption holds), or even in any significant number of cases. In fact, the evidence available indicates that the vast majority of patents confer neither market power nor monetary profit to the patentee.[11] Thus, there is nothing to contradict the answer to the question from Professor Areeda: "Patents, copyrights, trademarks, and other forms of intellectual property do not themselves confer *any* market power."[12]

Nor is the factual case for the presumption improved, as the Respondent argues, by narrowing the field of "presumptive" patents to those that are employed in tying arrangements. This Court has repeatedly recognized the benefits of and reasons for tying arrangements that apply

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[10] P. Areeda and H. Hovenkamp, *Antitrust Law* ¶ 518, at 194 (Supp. 2005).

[11] *See, e.g.*, Comments of F. M. Scherer, Panel Discussion, *The Value of Patents and Other Legally Protected Commercial Rights*, 53 Antitrust L.J. 535, 547 (1985) ("[s]tatistical studies suggest that the vast majority of all patents confer very little monopoly power—at least, they are not very profitable"); R. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399, 437 (2003) ("eighty percent to ninety percent of patents never create any monetary return on the patent holder" (footnote omitted)).

[12] IIA P. Areeda, H. Hovenkamp & J. Solow, *Antitrust Law* ¶ 523, at 130 (1st ed. 1995) (original emphasis).

with or without market power.[13] Among those benefits are quality assurance and customer preference.[14] Of particular note here, tying can be used as a means of "metering" the use of the invention itself, allowing the patentee to charge more to those who use the invention more intensively (that is, those who buy more ink), and less to those who do not. Such metering is "nearly always procompetitive."[15] In such a case, the patentee who imposes the tie "would be precisely equivalent to the lessor of an automobile who charges by the mile that the lessee drives."[16] Thus, the mere use of a tie, successful or not, cannot transform Illinois Tool, or a rental car company, into a monopolist.

In addition to its theoretical flaws and lack of empirical evidence, the argument that a patentee who insists on a tying arrangement "must" have market power is belied by the history of tying cases brought before this Court. In each of the Court's antitrust cases discussed below involving a tying product subject to intellectual property rights, there was clear evidence that the defendant did not have market power in the tying product. In *International Salt*, "there were several firms selling roughly equivalent lixator machines,"[17] and in *Paramount* and *Loew's* "not only the defendants but presumably numerous rivals offered copyrighted motion pictures of equivalent quality and desireability."[18] Indeed, the record in this case—which reflects substantial other sellers of substitutes for the tying product, and was fatal to

[13] *See, e.g., Will*, 776 F.2d at 673 ("The Supreme Court emphasized in *Hyde* and again in *National Collegiate Athletic Association* that tying may have competitive benefits.") (citations omitted).

[14] HJL Treatise, *supra* note 4, § 21.2, at 21-8.

[15] *Id.* at 21-12.

[16] *Id.* at 21-13.

[17] *Id.* § 4.2e4, at 4-31.

[18] *Id.* Those rivals would include the four co-defendants in *Paramount Pictures*, Columbia Pictures, Universal, United Artists, and Loew's itself.

the Section 2 claim below—belies any claim that the presumption is ordinarily true.

Because the presumption is groundless, it places a burden on intellectual property rights that is unjustified. Thus, there is striking unanimity among both economic and legal commentators that the presumption is harmful to consumers and should be abandoned. *See* Pet. 19. The federal enforcement agencies have expressly eschewed the presumption in their enforcement guidelines. Pet. 17-18. And Congress has expressly amended the Patent Act to provide that any claim of "misuse" by tying must prove market power, "thereby abolishing any presumption that a patent itself defines a market or implies market power."[19] For these reasons, most courts have also rejected the presumption (Pet. 9) and others that have applied it have done so solely in deference to this Court.

B. The Presumption Is Unworkable.

In its attempt to apply the presumption of market power to the case before it, the opinion below highlights certain anomalies of the presumption, and actually creates new ones.

First, the court had to acknowledge that the presumption it found warranted in a Section 1 tying case had no application whatsoever in a Section 2 claim. Pet. App. 17a. The conclusion that Section 2 requires market power was mandated by this Court's decisions in *Walker Process* and *Spectrum Sports*.[20] The Court of Appeals offered no

[19] X P. Areeda, E. Elhauge & H. Hovenkamp, *Antitrust Law* § 1737c, at 83 (2d ed. 2004), citing 35 U.S.C. § 271(d), and noting: "While the Act does not define proof of illegal tying under the antitrust laws, it would be anomalous to equate patents with power for antitrust purposes but not for misuse purposes, for the patent misuse defense is either equivalent to the antitrust offense or more hostile to the tying defendant."

[20] *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177-78 (1965) ("Without a definition of that market there is no way to measure [the patentee's] ability to lessen or destroy competition. . . . There may be effective substitutes for the device which do not infringe the patent."); *Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447 (1993).

rationale for the distinction, and none is apparent. If the presumption were grounded in fact, it would have at least some relevance to any antitrust analysis of market power. Instead, the anomalous result was accepted below for a single reason: "Neither *International Salt* nor *Loew's* dealt with section 2 of the Sherman Act." Pet. App. 17a.

Of greater practical consequence, however, the Court of Appeals next considered what would happen *after* the presumption was applied. For, unlike this Court's decision in *Loew's*, the Federal Circuit's decision here did not end the case in the plaintiff's favor. Acknowledging that this Court had never decided the issue, the Court of Appeals concluded that the presumption must be rebuttable, based on "clearly articulated Supreme Court dicta." Pet. App. 15a. That dicta came from the Court's 1984 *Hyde* decision, in which the majority observed that it was "fair to presume" that a patent "gives the seller market power." *Id.* (quoting *Hyde*, 466 U.S. at 16). The Federal Circuit thus remanded the case to give the defendant an opportunity to rebut the presumption of market power.

In doing so, however, the court further observed that "[t]he mere presence of competing substitutes for the tying product . . . is insufficient to" rebut the presumption. Pet. App. 16a. This language came from the decision in *Loew's*, in which (as noted) the presumption applied was expressly *not* a presumption of market power, but a presumption of "uniqueness." The *Loew's* Court was simply stating that the presence of competing substitutes was insufficient to overcome the presumption because, even though directly relevant to the question of market power, market power was not the test: "Market dominance—some power to control price and to exclude competition—is by no means the only test of whether the seller has the requisite economic power." *Loew's*, 371 U.S. at 45.

Because it applied the *Loew's* language about "competing substitutes" to a test that *does* require market power under

this Court's current law, the Federal Circuit's rule is quite extraordinary. There is no more direct evidence that a party lacks market power than the presence of other significant competitors already in the market.[21] Such competitors, by definition, are supplying options to consumers, have overcome any barriers to entry, and may have the current capacity to expand output and defeat any attempt by the alleged monopolist to curtail output.[22] After excluding this compelling evidence from consideration, the Federal Circuit stated that

> [t]he presumption can only be rebutted by expert testimony or other credible economic evidence of the cross-elasticity of demand, the area of effective competition, or other evidence of lack of market power.

Pet. App. 16a. But what "expert testimony" on the subject of actual market power would ignore the presence of direct competitors? What cross-elasticities will be more relevant than those of the "competing substitutes"? And what "other evidence of lack of market power" will suffice? In antitrust terms, it is as if the Federal Circuit has told the patent holder that you may rebut a presumption that it is raining, perhaps by expert analysis of barometric pressure, or by measuring reservoir levels, but not by going outside and taking your hat off.

There is practical difficulty in the Federal Circuit's selection of a "rebuttable" geographic market as well. Although *Loew's* made no reference to geographic markets either, the Federal Circuit supplied one itself: "Thus, a patent presumptively defines the relevant market as the

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[21] *E.g.*, L.A. Sullivan, *Handbook of the Law of Antitrust* § 8, at 30-31 (West 1977) ("[M]arket power is the power of a firm to affect the price which will prevail on the market in which the firm trades. Whether a seller possesses such power depends upon the . . . availability of substitutes for the seller's product.").

[22] *See, e.g., Indiana Grocery, Inc. v. Super Valu Stores, Inc.*, 864 F.2d 1409, 1414-15 (7th Cir. 1989).

nationwide market for the patented product itself . . . ." Pet. App. 15a (emphasis added). But there is no reason to believe that all products with U.S. patents compete in the same "nationwide" geographic market. It is widely recognized that geographic markets for patented products may have only a local reach, or may go well beyond domestic borders.[23] Here, the Federal Circuit's presumption of a "nationwide" market does not even comport with the market definition of this very plaintiff, who argued in the District Court that "the geographic market for the tying product is the United States and Canada." Pet. App. 45a.

We emphasize these practical problems because the consequences of these rules will be visited on those individuals and businesses attempting to negotiate, execute, and enforce intellectual property agreements—as well as the 28,000 members of the ABA's Sections of Intellectual Property Law and Antitrust Law attempting to advise clients and try cases.

II. The Market Power Presumption Finds No Support In The Prior Holdings Of This Court.

As noted, we do not believe the market power presumption can be supported as a matter of economic policy. A closer question is whether the Court's precedent has previously applied such a presumption. The Court of Appeals construed *Loew's* to hold "that, where the tying product is patented or copyrighted, market power may be presumed rather than proven." Pet. App. 8a. To square that holding with the Court's later decisions requiring genuine market power to support a claim of tying, the Court of Appeals also construed *Loew's* as "confirm[ing] that patent tying is a distinct doctrine" from tying involving nonpatented

[23] *See, e.g.*, HJL Treatise, *supra* note 4, § 4.3b, at 4-45 (giving examples of different markets and concluding that "the characteristics of the [patented] good itself determines the size of the market and the range of competitive choices").

products. Pet. App. 9a. As indicated, we do not believe that *Loew's* can support either proposition.

The flaw in the Circuit Court's reading lies in its failure to recognize the role in this Court's decisions of "economic power" in the tying product, and how the definition of that power has changed over time. The Court's decisions can be divided into three parts: (1) the period of "hostility"—before power in the tying product was even considered, (2) the period of "uniqueness"—when "power" was defined to mean a sense of distinctiveness so easy to satisfy that it could be inferred from the existence of the tie itself, and (3) the current period of actual market power—in which power is defined as market power in the modern sense of power over price.

A. The Period Of "Hostility."

Nearly one hundred years ago, this Court rejected an attack on a tying arrangement strikingly similar to this one—in which a patented mimeograph machine was licensed on the condition that the licensee purchase the ink from the patent holder. *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912). The patentee had argued, even then, that the tying arrangement was a form of metering, by which the licensor "is merely insuring to himself a royalty based upon the output of the machine." *Id.* at 65. In upholding the tie as consistent with the use of the patent right, the majority rejected the argument of Chief Justice White in dissent that the use of a tie allowed the patent holder "to bring within the claims of his patent things which are not embraced therein, thus . . . to multiply monopolies at the will of an interested party." *Id.* at 53. This was an early and forceful articulation of what many have called the "patent leveraging fallacy."[24]

[24] W.S. Bowman, Jr., *Patent and Antitrust Law* 154 (U. Chi. Press 1973). Whether the leveraging theory was properly applied in the Court's early cases is not within the scope of the question presented here. We note only that the theory has been abandoned in the Court's modern decisions,

Five years later, in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917), the views of Chief Justice White prevailed, and *Henry v. A.B. Dick* was overruled. This time, Justice Holmes dissented:

> The supposed contravention of public interest sometimes is stated as an attempt to extend the patent law to unpatented articles, which of course it is not, and more accurately as a possible domination to be established by such means. *But the domination is one only to the extent of the desire for the* [patented] *tea pot or film feeder*, and if the owner prefers to keep the pot or the feeder unless you will buy his tea or films, I cannot see in allowing him the right to do so anything more than an ordinary incidence of ownership . . . .

243 U.S. at 520 (emphasis added). The Court then embarked on a period of self-described "hostility" to tying arrangements. *See Loew's*, 371 U.S. at 46. That period culminated in the Court's 1947 decision in *International Salt Co. v. United States*, 332 U.S. 392 (1947), where the tying product was patented, and its 1948 decision in *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948), where the tying product was copyrighted.

International Salt and *Paramount Pictures* are significant here because the Federal Circuit has suggested that they must be "overrul[ed]" to reject the presumption of market power. Pet. App. 14a. But that is difficult to justify when neither

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see, e.g., Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 36 (1984) (O'Connor, J., concurring) ("The existence of a tied product normally does not increase the profit that the seller with market power can extract from sales of the tying product.") (emphasis omitted), and is routinely rejected by the commentators: "Tying cannot enable a patentee to attain a double monopoly profit by tying unpatented goods." HJL Treatise, *supra* note 4, § 21.3b, at 21-20. *See also Hyde*, 466 U.S. at 36 (concurrence describing this view as "easily demonstrated and widely accepted"). Whatever the historical merit of the leveraging theory, it helps to explain why the Court's early decisions did not address the issue of power in the tying product market.

case addressed, or even discussed, any requirement of power in the tying product. Instead, the cases relied expressly on the leveraging theory as their rationale.[25] The *International Salt* opinion condemned the tie as long as the "volume of business" affected in the tied product not be "insignificant or insubstantial." 332 U.S. at 396. The principal competitive evil identified was the tendency of the tie "to foreclose competitors from" access to sales of the tied product. *Id.* If these cases no longer comport with this Court's tying jurisprudence, they were disapproved long ago. It is not necessary to overrule them for providing the "wrong" answer to a question that was never asked.

B. The Period Of "Uniqueness."

The first case to consider any concept of power in the tying market came five years later in *Times-Picayune Publishing Co. v. United States*, 345 U.S. 594 (1953). There the Court refused to condemn as an illegal tie a newspaper's requirement that ads be run in both its morning and afternoon papers. The Court's opinion described the Sherman Act's prohibition on tying as confined to cases where "the seller enjoys a monopolistic position in the market for the 'tying' product." 345 U.S. at 608. Because the defendant had no power in the relevant market for advertising, the tying claim was rejected.

In a series of subsequent decisions, however, the Court made clear that the definition of the "power" sufficient to satisfy this test was not actual market power in the modern sense of power over price, but something far broader. The first was *Northern Pacific Railway Co. v. United States*, 356 U.S. 1 (1958), in which the tying product was the

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[25] *Int'l Salt*, 332 U.S. at 395-96 ("But the patents confer no right to restrain use of, or trade in, unpatented salt."); *Paramount Pictures*, 334 U.S. at 158 ("Where a high quality film greatly desired is licensed only if an inferior one is taken, the latter borrows quality from the former and strengthens its monopoly by drawing on the other.").

"exclusive" landholdings of certain railroads along the right-of-way. Justice Black made clear that the suggestion in *Times-Picayune* that the defendant have a "monopolistic position" would not be taken literally:

> While there is some language in the *Times-Picayune* opinion which speaks of "monopoly power" or "dominance" over the tying product as a necessary precondition for application of the rule of *per se* unreasonableness to tying arrangements, we do not construe this general language as requiring anything more than sufficient economic power to impose an appreciable restraint on free competition in the tied product . . . .

356 U.S. at 11. That power could be found in a tying case "regardless of the source from which the power is derived and whether the power takes the form of a monopoly or not." *Id.* Indeed, that definition of power was so broad that it could be inferred from the very fact of the tying arrangement itself: "The very existence of this host of tying arrangements is itself compelling evidence of the defendant's great power . . . ." *Id.* at 7-8.

As the defendants in *Northern Pacific* argued unsuccessfully that market power was now the test, they tried to distinguish *International Salt*, which had not required proof of power, by asserting that the existence of the patent made the difference. Justice Black disagreed:

> In arriving at its decision in *International Salt* the Court placed no reliance on the fact that a patent was involved nor did it give the slightest intimation that the outcome would have been any different if that had not been the case. If anything, the Court held the challenged tying arrangements unlawful *despite* the fact that the tying item was patented, not because of it.

Id. at 9 (original emphasis). For the Court in *Northern Pacific*, the result in *International Salt* was compelling evidence that the requisite power was *not* true market power—if that were the test, a patent alone clearly would not meet it:

> Of course it is common knowledge that a patent does not always confer a monopoly over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the patent privileges is slight.

Id. at 10 n.8.

Four years later, this Court's decision in *Loew's* continued the process of defining down the concept of "power" in the tying market. The Court's oft-repeated statement that "[t]he requisite economic power is presumed when the tying product is patented or copyrighted" was immediately preceded by this passage:

> Market dominance—some power to control price and to exclude competition—is by no means the only test of whether the seller has the requisite economic power. Even absent a showing of market dominance, the crucial economic power may be inferred from the tying product's desirability to consumers or from uniqueness in its attributes.

371 U.S. at 45 (footnote omitted). The *Loew's* Court thus could not have been clearer that its definition of the "requisite economic power" was *not* "some power to control price," and thus not actual market power in its modern sense. The *Loew's* Court continued in a footnote that a finding of "economic power . . . on the basis of either uniqueness or consumer appeal . . . does not necessitate a demonstration of market power." 371 U.S. at 45 n.4. And the Court specifically noted that "it should seldom be necessary in a tie-in sale case to embark on a full-scale factual inquiry into the scope of the relevant market . . . [or compute] the seller's percentage share in that market." *Id.*

Once the requisite power was defined as "uniqueness," moreover, a presumption of such power based on the existence of intellectual property followed by definition,

because "one of the objectives of the patent laws is to reward uniqueness." *Id.* at 46. This is understandable. A patent is awarded only to inventions that are both novel and not obvious,[26] and thus distinctive by their very nature. A copyrighted work, moreover, is literally unique, as the law protects only the original item itself.[27] Thus, it was not difficult for the *Loew's* Court to find that the holding of *Paramount Pictures*, notwithstanding its failure to address the issue of power, fit comfortably into the "presumption of uniqueness," for "[a] copyrighted feature film does not lose its legal or economic uniqueness because it is shown on a television rather than a movie screen." 371 U.S. at 48.

In sum, and contrary to the opinion below, *Loew's* did not "ma[k]e clear that, where the tying product is patented or copyrighted, *market power* may be presumed rather than proven." Pet. App. 8a (emphasis added). Rather, it held only that *uniqueness* may be (and arguably must be) presumed from a copyright or patent. And that, as this Court has repeatedly stressed, is a very different inquiry.[28]

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[26] *E.g., Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 736 (2002) (citing 35 U.S.C. §§ 101-103 (1994 ed. and Supp. V)).

[27] *Bleistein v. Donaldson Lithographing Co.*, 188 U.S. 239, 250 (1903) (Holmes, J.) ("Personality always contains something unique. . . . [Even] a very modest grade of art has in it something irreducible, which is one man's alone. That something he may copyright . . . .").

[28] Nor did *Loew's* "confir[m] that patent tying is a distinct doctrine" from the law governing non-patented products. Pet. App. 8a. The Court of Appeals based that conclusion solely on a reference in *Loew's* to the defendants' argument "that their behavior is not to be judged by the principle of the patent cases . . . , but by the general principles which govern . . . nonpatented products." *Id.* But the *Loew's* Court, like Justice Black in *Northern Pacific*, *rejected* the defendants' argument that the doctrines were separate, noting that "[a]pplicability of *Paramount Pictures* brings with it a meeting of the test of *Northern Pacific* [for unprotected products], since *Paramount Pictures* is but a particularized application of the general doctrine as reaffirmed in *Northern Pacific*." *Loew's*, 371 U.S. at 50.

C. The Period Of Market Power.

The Court's subsequent decisions in *Fortner II* and *Hyde* fundamentally altered the law of tying. In *Fortner II*, the Court reversed a finding of requisite power in the tying product market that was based on a finding of uniqueness. That finding, in turn, was based on several indicia of uniqueness suggested by Justice Black in his prior opinion for the Court in *Fortner I*.[29] *See Fortner II*, 429 U.S. at 614-16. Among the findings of uniqueness considered in *Fortner II* was the same one that Justice Black had stressed in his *Northern Pacific* opinion: that "petitioners entered into tying arrangements with a significant number of customers in addition to Fortner." *Id.* at 614. This time, however, the Court rejected these findings as insufficient to establish the power requirement for tying. *Id.* at 618.

The *Fortner II* Court explained that "uniqueness" was relevant to the question of tying product power only to the extent that it reflected "whether the seller has the power, within the market for the tying product, to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market." *Id.* at 620 (footnote omitted). The Court acknowledged that a commentator on *Fortner I* had "correctly analyzed the burden of proof" when he stated that "[it is] clear that market power in the sense of power over price must still exist." *Id.* at 620 n.13.

In this way, the definition of power for purposes of the "forcing" requirement in tying was changed fundamentally from the approach of *Northern Pacific* and *Loew's*. Whereas in *Loew's* true market power was simply one means of showing the requisite "uniqueness," now "uniqueness" was relevant only as a means of showing real power over price. Because what the plaintiff in *Fortner II* labeled "uniqueness"

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[29] *Fortner Enters., Inc. v. United States Steel Corp.*, 394 U.S. 495 (1969).

did not relate to actual market power. moreover. the plaintiff lost. *Id.* at 621-22. The doctrine was cemented by the decision in *Hyde*. where the Court rejected a tying claim because a 30-percent market share was too small to show market power. despite evidence that the surgical services involved were "unique" in other senses. *Hyde*. 466 U.S. at 27 ("While these factors may generate 'market power' in some abstract sense. they do not generate the kind of market power that justifies condemnation of tying." (footnote omitted)). *Hyde* thus turned on precisely the kind of "factual inquiry into the . . . seller's percentage share" of the market that the *Loew's* opinion said was unnecessary "in a tie-in sale case." *Loew's*. 371 U.S. at 45 n.4. Those holdings cannot be squared with the statement in *Loew's* that "the mere presence of competing substitutes for the tying product" is insufficient to defeat a tying claim. *Loew's*. 371 U.S. at 49.

The Federal Circuit's conclusion that the requirement of tying product power was fundamentally altered by these decisions with respect to most products. but was left undisturbed when the tying product was patented or copyrighted. does not follow. The principal ground for the Federal Circuit's conclusion was a statement in *Hyde*—which the Federal Circuit described as "clearly articulated Supreme Court dicta" (Pet. App. 15a)—that it is "fair to presume" that a patent "gives the seller market power." *Id.* at 9a (quoting *Hyde*. 466 U.S. at 16). But that statement is insufficient to resolve the question presented here for numerous reasons.

Because *Hyde* did not involve intellectual property. the statement about patents in the majority opinion was not necessary to the Court's holding. Thus. that remark should be read with caution. especially when the *only* authority cited was *Loew's* itself. *see Hyde*. 466 U.S. at 16. citing 371 U.S. at 45-47. including the very page stating that a tying claim "does not necessitate a demonstration of market power . . . ." *Loew's*. 371 U.S. at 45 n.4.

The Court's assertion. moreover. if construed to presume actual market power. had already been questioned by other "clearly articulated Supreme Court dicta." Pet. App. 15a. Indeed. the falsity of that proposition was described as "common knowledge" by the Court twenty-five years earlier in *Northern Pacific*. 356 U.S. at 10 n.8.

The *Hyde* majority's remark about patents was further questioned by the four concurring members of the Court. Indeed. Justice O'Connor's *Hyde* concurrence described the presumption of market power in patent cases as a "common misconception." 466 U.S. at 37 n.7 (O'Connor. J., concurring). And when. only two months later. the Ninth Circuit relied on *Loew's* to apply a presumption of market power to intellectual property Justices White and Blackmun. both members of the *Hyde* majority. dissented from the Court's refusal to grant certiorari. describing the Ninth Circuit decision as "suspect on several grounds." *Data Gen. Corp. v. Digidyne Corp.*. 473 U.S. 908. 909 (1985) (White. J.. dissenting from denial of cert.) (urging review to determine "what effect should be given to the existence of a copyright . . . in determining market power").

We do not suggest that "nose-counting." as the Federal Circuit characterized it. Pet. App. 12a. can be used to declare a change in this Court's law. The question here is whether the language in *Hyde*—relied upon. and characterized as dicta. by the Federal Circuit—should suffice to carve a patent exception to the new requirement of market power in tying cases.

The answer is that dicta should not decide cases. One of the many ironies of the cases following *Hyde* is that this Court's effort to expand the range of legality under the antitrust laws for beneficial ties in all areas (by redefining the required "power" as market power) has inadvertently narrowed the scope of legality for ties involving intellectual property. By also redefining the *Loew's* "presumption" to be one of market power. courts like the Federal Circuit have

taken what was designed to be an additional burden for the claimant (who must prove real market power) and turned it into a burden for the intellectual property defendant (for whom real market power is presumed). Only by relying on the "dicta" in *Hyde* could the Federal Circuit reach such a strange result under this Court's decisions.

In sum, a review of this Court's tying jurisprudence does not support the holding of the Federal Circuit below. Rather, the conclusion of Justice O'Connor in the concurring opinion in *Hyde* still holds: "Nor does any presumption of market power find support in our prior cases."[30]

III. The Doctrine of *Stare Decisis* Cannot Justify The Presumption of Market Power.

A. The Presumption of Market Power Was Not Necessary to The Result in *Loew's*.

We have shown that there is no need to overrule *Loew's* because its holding did not depend on the question presented here. While it may be true that many of the presumptions, rationales, and acknowledged "hostilities" underlying *Loew's* have been undermined by the Court's tying jurisprudence, that happened long ago. As this Court observed in reconsidering another antitrust precedent, "[w]ith the views underlying [*Loew's*] eroded by this Court's precedent, there is not much of that decision to salvage." *State Oil v. Khan*, 522 U.S. at 21.

This Court has made it clear that the doctrine of *stare decisis* is reserved for holdings. Thus, in *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752, 760 (1984), the Court pointed out that, while many of its prior decisions had expressed approval of the intra-enterprise conspiracy doctrine, "in all but perhaps one instance" that doctrine was unnecessary to the result. The Court did not, for example, overrule its decision in *United States v. Yellow Cab Co.*, 332

[30] *Hyde*, 466 U.S. at 38 n.7.

U.S. 218 (1947), on which many had relied in applying the intra-enterprise conspiracy doctrine. That was because *Yellow Cab* had been misinterpreted as applying the doctrine, when in fact it did not. *See Copperweld*, 467 U.S. at 762 (finding "little support for the broad doctrine *Yellow Cab* has been thought to announce").

The Court may deal with *Loew's* in the same way, because the holding in *Loew's* may be supported on alternative grounds, independent from the presumption of uniqueness. In *Loew's*, the lower court had found that each film "was in itself a unique product." The court had relied on evidence of the characteristics of each copyrighted film, which "varied in theme, in artistic performance, in stars, in audience appeal, etc.," for its conclusion that each defendant had market dominance over each film. *Loew's*, 371 U.S. at 48 (quoting 189 F. Supp. at 381). Based on this evidence, this Court concluded that each defendant "had a 'monopolistic' position as to each tying product," resulting in "sufficient economic power" to "confirm the presumption" and condemn the tie. *Id.* at 48.[31] Under this view, each individual film was a market unto itself in which the defendants held complete power over price and output. Because such a market definition is theoretically possible,[32] it is not clear that the holding in *Loew's* was necessarily dependent on any presumption. Indeed, several courts have distinguished *Loew's* on these grounds.[33]

[31] Professor Pearson, in contemporaneous commentary, agreed with this approach, stating that "unless the Court is to play the part of the critic in each block-booking case to come before it, it would have to take the position either that each film is a separate product or that films are fungible. I think it was well warranted in taking the former approach." R. N. Pearson, *Tying Arrangements and Antitrust Policy*, 60 Nw. U. L. Rev. 626, 651 n.88 (1965).

[32] *See Eastman Kodak Co. v. Image Technical Serv., Inc.*, 504 U.S. 451, 482 (1992).

[33] *See, e.g., Capital Temps., Inc. v. Olsten Corp.*, 506 F.2d 658, 663 (2d Cir. 1974) ("The appellant misreads *Loew's* if he concludes that the mere

B. *Loew's* Meets The Court's Criteria For Rejection Under *Stare Decisis*.

If, notwithstanding the above analysis, *Loew's* is read as supporting a presumption of market power, it appropriately may be overruled in keeping with the Court's past application of *stare decisis*. This Court has pointed out that "[i]n the area of antitrust law, there is a competing interest, well represented in this Court's decisions, in recognizing and adapting to changed circumstances and the lessons of accumulated experience." *Khan*, 522 U.S. at 20. Rejecting the putative market power presumption of *Loew's* thus fits comfortably within the Court's "common-law tradition" of developing antitrust doctrine. *Id.* at 20-21. Here, as in *Copperweld*, this Court "has never explored or analyzed in detail the justifications for such a rule." 467 U.S. at 766. Here, as in *Khan*, "the analytical underpinnings of [*Loew's*] were substantially weakened by" later decisions. 522 U.S. at 14.

Indeed, this is a stronger case for reversal in at least two ways. First, the extent of opposition to the presumption is unprecedented. For this Court to uphold an antitrust rule deemed unambiguously harmful to consumers solely on the basis of *stare decisis* would transform the doctrine into an "inexorable [and irrational] command." *Khan*, 522 U.S. at 20. Second, unlike the rules rejected in *Copperweld* and *Khan*, there is substantial disagreement as to what this Court's "prior" rule has been. As we explain below, there is ample dissent among the courts as to what *Loew's* requires. That was not the case in *Copperweld*, where Justice Stevens pointed out that "it had been the universal conclusion of both the lower courts and the commentators that this Court's cases establish" the intra-enterprise conspiracy doctrine. 467 U.S.

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existence of the copyrighted tying motion pictures was enough to create the tying."); *3 P.M., Inc. v. Basic Four Corp.*, 591 F. Supp. 1350, 1359 n.11 (E.D. Mich. 1984). *See also* HJL Treatise, *supra* note 4, at 4-37 n.114.

at 783-84 (Stevens, J., dissenting). In *Khan*, moreover, there was no dispute that the Court's decisions had declared maximum vertical price-fixing unlawful *per se*. 522 U.S. at 7. The case for *stare decisis* is undermined where, as here, there is sharp disagreement as to whether the "established" rule is, in fact, established.

C. There is No "Reliance" Interest That Supports the Application of *Stare Decisis* Here.

Respondent has argued that the doctrine of *stare decisis* prohibits the Court from overruling *Loew's* because members of the legal and business communities have for several decades relied on *Loew's* and ordered their affairs accordingly. Resp. Br. in Opp. to Cert. at 5. If the Court determines that it must overrule *Loew's*, the ABA believes that it offers a valuable perspective on the extent to which this legal doctrine has ordered legal affairs. In our view, Respondent has it backwards.

For nearly 30 years, it has been clear to bench and bar that the *per se* rule against tying was not a *per se* rule in the same sense as others, that is, one in which no inquiry into actual market structure is made. Rather, the Court held in *Fortner II* and emphatically reaffirmed in *Hyde* that a tying arrangement cannot harm competition without a showing of actual market power in the tying product. This requirement, as the Federal Circuit acknowledged below, Pet. App. 6a-7a, marked a fundamental change from this Court's prior precedents.

These decisions eroded the basis for assuming that the Court would continue to apply *any* presumption to intellectual property—much less a new presumption of genuine market power. This view was confirmed shortly after the 1984 decision in *Hyde*, when the Ninth Circuit construed *Loew's* to require a presumption of market power

and two Justices of the *Hyde* majority promptly labelled the decision "suspect."[34] By 1986, both the Sixth and Seventh Circuits had rejected that reading of *Loew's*,[35] and the majority of courts thereafter concurred. Pet. 23 n.8.

In fact, the criticism of the Ninth Circuit's *Digidyne* decision for over twenty years makes the point that there has been no "reliance" by the legal and business community on the presumption of *Loew's*. Far from being accepted as an inevitable application of *Loew's*, *Digidyne* has been assailed by commentators, rejected by other Circuits, and ignored by numerous District Courts.[36] Thus, the suggestion of the Federal Circuit below that the presumption of market power in patent cases is a settled doctrine only questioned by the Sixth Circuit in *A.I. Root* and by two others "in dictum," Pet. App. 13a, is unfounded. On the contrary, Judge Easterbrook's description fifteen years ago is closer to the mark:

> The tying doctrine was linked to market power in *Hyde*, and although some lower courts missed the message and continued to hold that copyrights and patents are monopolies, most got on board.[37]

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[34] *Data Gen. Corp. v. Digidyne Corp.*, 473 U.S. 908, 908 (1985) (White, J., dissenting from denial of cert.).

[35] *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673 (6th Cir. 1986); *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665 (7th Cir. 1985).

[36] *See* X Areeda & Hovenkamp, ¶ 1737d, at 83-85 (discussing *Digidyne* and observing that "[t]he basis for inferring power from a copyright or trademark is even weaker than it is for patents"); *Will*, 776 F.2d at 673 n.4 (rejecting *Digidyne*); *Telerate Sys., Inc. v. Caro*, 689 F. Supp. 221, 236 (S.D.N.Y. 1988) (same); X Areeda & Hovenkamp, ¶ 1737d, at 85 n.37 (collecting cases).

[37] Hon. F.H. Easterbrook, *Intellectual Property is Still Property*, 13 Harv. J.L. & Pub. Pol'y 108, 113 (1990). The principal case that "missed the message" at that time was *Digidyne*:

> The Ninth circuit held in *Digidine Corp. v. Data General Corp.*, 734 F.2d 1336 (9th Cir. 1984), that the software of a computer

Current commentators agree that "[e]ven in antitrust cases, the presumption of market power for patents has largely disappeared since 1988."[38] In commenting on the Federal Circuit's decision in this case, moreover, Professor Hovenkamp concluded as follows:

> Heretofore the presumption of market power for patented or copyrighted products had languished to the point that antitrust plaintiffs chose not to rely on it. With the Federal Circuit's new imprimatur, however, one can expect that plaintiffs will rely on the presumption in a much wider variety of situations, and in most of these it will be unwarranted.[39]

Whichever way the Court decides to resolve the issue now, the state of the law we have set forth does not describe orderly adherence to an established precedent reflected by the holding of cases such as *Digidyne*. It describes, rather, a state of uncertainty. And that uncertainty has been heightened dramatically by this decision of the Federal Circuit, a court which has stated that "the antitrust consequences of patent tying . . . is a question governed by our law." Pet. App. 4a-5a (footnote omitted).

From the perspective of the ABA, therefore, there has not been "reliance" by the legal or commercial community on the presumption in *Loew's* in any sense important to *stare decisis*. Rather, there has been a consensus that a presumption of market power is unwarranted as a matter of

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> representing less than one percent of any market represented economic power sufficient to bar a tie-in between hardware and software. Almost everyone else, including the Seventh Circuit, in *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665 (7th Cir. 1985), rejected that view and held that intellectual property is now just like other property.

Id. at 113 n.18.

[38] HJL Treatise, *supra* note 4, at 4-36.

[39] Areeda & Hovenkamp, *supra* note 10, ¶ 518, at 197-98 (Supp. 2005) (footnote omitted).

economics and legal policy. At the same time, the ABA has recognized that, while most courts have rejected the presumption of market power, others have felt constrained to apply it. The Court's effort to provide clarity and guidance in this area of the law will be frustrated as long as there are those who believe that the presumption of market power in patent cases is "still" the law.

CONCLUSION

For the reasons stated, the ABA respectfully requests that this Court reverse the decision of the Court of Appeals for the Federal Circuit.

Respectfully submitted,

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IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS, INC. AND TRIDENT, INC.,

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICUS CURIAE* AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF NEITHER PARTY

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AMICUS CURIAE BRIEF OF THE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF NEITHER PARTY

The American Intellectual Property Law Association ("AIPLA") respectfully submits this brief as *amicus curiae* in support of neither party to *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, 396 F.3d 1342 (Fed. Cir. 2005), to urge the Court to eliminate the presumption of market power in patent antitrust tying cases applied in that decision.

STATEMENT OF INTEREST[1]

AIPLA has no interest in any party to this litigation or stake in the outcome of this case, other than its interest in seeking a correct and consistent interpretation of the law affecting intellectual property.

AIPLA is a voluntary bar association of nearly 16,000 members who daily work with patents, trademarks, copyrights, and trade secrets, and with the legal issues that the intellectual property presents. AIPLA's members include attorneys in private and corporate practice and in government service who secure, license, enforce, and defend against enforcement of intellectual property rights. They regularly counsel and advise their clients regarding, *inter alia*, the requirements of the antitrust laws for patent

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[1] In accordance with Supreme Court Rule 37.6, AIPLA states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than AIPLA or its counsel.

licensing arrangements. The arrangements include those that may be argued to tie the sale of patented and unpatented products. The Federal Circuit panel's decision below materially impacts those licensing arrangements.

Through its diverse representation of the intellectual property bar, AIPLA brings a broad perspective and extensive experience to the important issues raised by the decision below. AIPLA offers the Court a unique and balanced perspective, because AIPLA's members represent parties on both sides: (1) patent owners who license or enforce their intellectual property rights and, as a result, may find themselves accused of violating the antitrust laws; and (2) licensees or accused infringers who may respond to infringement threats or suits with claims that the patent owner's licensing arrangements violate the antitrust laws.

Through their work, AIPLA's members have practical experience with the factual predicate underlying the legal question that the Petition presents: whether the presumption of market power in a relevant market for the patented product—based solely on the existence of a patent—has a basis in fact.

AIPLA sought consent to file this *amicus curiae* brief from the counsel of record for all parties, pursuant to Supreme Court Rule 37.3(a). Counsel for all parties consented. Copies of the letters of consent are being filed with the Clerk.

SUMMARY OF ARGUMENT

In *Independent Ink*, a three-judge panel of the Federal Circuit applied a presumption of market power in a relevant market. The panel applied the presumption in the context of

an alleged Sherman Act § 1 antitrust violation based on tying of a patented product to an unpatented product. Specifically, the panel held that the mere existence of a patent on a product creates a rebuttable presumption that the patent owner has market power in the relevant market for the patented product itself. In so holding, the panel concluded that prior decisions of this Court require that presumption.

In reality, however, the mere issuance of a patent neither defines a relevant product market nor conveys market power in a relevant market, except in very rare cases. Consequently, the presumption that patents nearly always define a market unto themselves and provide sufficient power to raise prices or restrict output is not based on actual experience. Because the presumption does not reflect market realities, the Court should reject it.

Moreover, the presumption will encourage routine filing of tying antitrust claims, because the accusers would not need to confront market realities. Those filings may arise not only in cases of express ties, but also where a license arrangement may be argued to have a tying effect. The increased risk of treble-damage antitrust liability may discourage patent owners from enforcing their patent rights, and thus may lessen the value of those rights and the incentive to make and disclose innovations to the public.

The detrimental effect of the panel's decision extends to all antitrust tying allegations in the normal context in which patent claims are raised, *i.e.*, where the complaint raises claims of patent infringement, validity, or enforceability. Because the Federal Circuit has exclusive appellate jurisdiction in those cases, its presumption rule will apply.

The decision below addresses an issue of exceptional importance with widespread impact. It concerns not only the administration of the antitrust laws but also the potential for overly aggressive private treble-damage antitrust enforcement that could lessen the incentives for innovation.

AIPLA takes no position on the merits of this case or who should prevail on the present facts in the absence of a presumption of market power. Instead, AIPLA urges the Court to vacate the judgment below, hold that the mere existence of a patent should not create any presumption of a relevant market or of market power in a relevant market for tying arrangements involving patent and other intellectual property rights assessed under the Rule of Reason, and remand the case to the Federal Circuit for further proceedings without that presumption.

ARGUMENT

I. The Federal Circuit Panel's Decision Contravenes Economic Experience

Applying the presumption in the context of an alleged tying violation of Sherman Act § 1, the Federal Circuit panel held that:

> [A] patent presumptively defines the relevant market as the nationwide market for the patented product itself and creates a presumption of power within this market. Once the plaintiff establishes a patent tying agreement, it is the defendant's burden to rebut the presumption of market power and consequent illegality that arises from patent tying.

Independent Ink, 396 F.3d at 1352. In applying this presumption, the panel relied upon and concluded that it was constrained by this Court's decisions in *International Salt Co. v. United States*, 332 U.S. 392, 395-96 (1947), and *United States v. Loew's Inc.*, 371 U.S. 38, 45-46 (1962). *See Independent Ink*, 396 F.3d at 1346-52.

The Federal Circuit panel's decision actually applies two related presumptions: (1) that a patent defines a relevant market for the patented product[2] itself in the United States; and (2) that the patent provides market power in that relevant market. *See i.d.* at 1352. The first presumption typically will control, because if the patent were to define a relevant product market, the patent likely would provide substantial economic power in that market by virtue of the right to exclude.

This Court has instructed that "[l]egal presumptions that rest on formalistic distinctions rather than actual market realities are generally disfavored in antitrust law." *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 466-67 (1992). In AIPLA's practical experience, neither presumption rests on actual market realities.

In AIPLA's experience, virtually all patents cover improvements to existing products that represent modest, incremental advances. Rarely do they claim pioneering inventions that open entirely new economic markets. Thus, the issuance of a patent, standing alone, only rarely affords its owner or licensor any appreciable market power in a relevant product market in the antitrust sense, *i.e.*, the power to raise prices or restrict output in that market. *See Kodak*,

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[2] Patents provide protection for both products and processes. For simplicity, this brief refers only to products.

504 U.S. at 464 (explaining that market power "has been defined as 'the ability of a single seller to raise price and restrict output.'" (quoted source omitted)).

In AIPLA's experience, patented improvements typically compete with and provide alternatives to existing products that are already established in, or that may even dominate, the marketplace. Because they routinely are interchangeable with existing products, patented improvements seldom constitute a relevant product market unto themselves. *See Brown Shoe Co. v. United States*, 370 U.S. 294, 325 (1962) ("The outer boundaries of a product market are determined by the reasonable interchangeability of use or the cross-elasticity of demand between the product itself and substitutes for it."). Thus, the presumption that a patented product defines a relevant market for antitrust purposes has no basis in fact.

Routine interchangeability also precludes any factual basis for the presumption of market power in a relevant product market. In competing as an alternative to established, existing products, a patented product seldom dominates the marketplace.

As a result, contrary to the presumption, a patent rarely defines a relevant product market or creates market power in any relevant market, in AIPLA's practical experience.

Other Federal Circuit panels have recognized this economic reality in the contexts of other antitrust laws and patent misuse. *See, e.g., C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1368 (Fed. Cir. 1998) (Sherman Act § 2; "It is not presumed that the patent-based right to exclude necessarily establishes market power in antitrust terms. The

virtually unlimited variety and scope of patented inventions and market situations militate against *per se* rules in these complex areas."); *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997) (not applying presumption in patent misuse context; "[I]n the absence of market power, even a tying arrangement does not constitute patent misuse."); *Abbott Labs. v. Brennan*, 952 F.2d 1346, 1354 (Fed. Cir. 1991) (Sherman Act § 2; "A patent does not of itself establish a presumption of market power in the antitrust sense. The commercial advantage gained by new technology and its statutory protection by patent do not convert the possessor thereof into a prohibited monopolist."); *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 875 n.9 (Fed. Cir. 1985) (Sherman Act § 2; "[N]ot every patent confers market power." (quoted source omitted)); *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1367 (Fed. Cir. 1984) (Sherman Act § 2; "[P]atent rights are not legal monopolies in the antitrust sense of that word.").

Both the legislative and executive branches have indicated that the presumption is not factually supportable. In enacting 35 U.S.C. § 271(d)(5) (2000), Congress specifically required proof of market power in a relevant market to establish patent misuse or an illegal extension of the patent right. Similarly, the Federal Trade Commission and the Department of Justice have concluded that market power cannot and should not be presumed: "Although the intellectual property right confers the power to exclude with respect to the *specific* product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power." United States Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* § 2.2 (Apr. 6,

1995), *available at* http://www.usdoj.gov/atr/public/guidelines/ipguide.htm (last visited July 20, 2005).

Thus, the essential factual premise of the Federal Circuit panel's decision, and of prior decisions by this Court in *International Salt*, 332 U.S. at 395-96, and *Loew's*, 371 U.S. at 45-46, has no factual basis, in AIPLA's practical experience. Because the presumption does not rest on "actual market realities," the Court should reject it. *See Kodak*, 504 U.S. at 466-67.

II. The Market Power Presumption Eliminates a Critical Limitation on Application of the *Per Se* Rule, which Should Not Be Compromised

The market power presumption can result in *per se* antitrust illegality if the patent owner does not rebut the presumption. This is because, once the plaintiff meets the market power element, remaining key elements of a tying offense may be undisputed or easily proved: two separate products that are tied together in an arrangement that affects a "not insubstantial" amount of commerce in the market for the tied product. *N. Pac. Ry. Co. v. United States*, 356 U.S. 1, 6 (1958) (concluding that tying arrangements are "unreasonable in and of themselves whenever a party has sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product and a 'not insubstantial' amount of interstate commerce is affected."); *see Kodak*, 504 U.S. at 461-62. Thus, the presumption may shift certain cases from the Rule of Reason to *per se* standards for determining illegality of patent tying arrangements under Sherman Act § 1.

Such a result would run counter to the trend of this Court's antitrust decisions. Over the past thirty years, the

Rule of Reason has developed into the preferred method for analyzing the potential for competitive harm in antitrust cases. *See, e.g., Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 49 (1977); *State Oil Co. v. Kahn*, 522 U.S. 3, 10 (1997). It affords substantial flexibility to prohibit practices that harm competition, while permitting practices that do not harm competition or that affirmatively enhance competition.

This Court has departed from the Rule of Reason and applied a *per se* rule to tying only in the narrow situation in which the seller is found to have market power in the relevant market for the tying product. *See, e.g., Kodak*, 504 U.S. at 464-78. In such cases, the antitrust plaintiff must (1) define the relevant market and (2) establish that the antitrust defendant has appreciable market power in the relevant market. *See Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 18 (1984); *Kodak*, 504 U.S. at 462 (explaining that "'appreciable economic power' in the tying product market" must be shown for a violation of Sherman Act § 1). This Court has recognized that tying is not necessarily *per se* unlawful. *See, e.g., Times Picayune Publ'g Co. v. United States*, 345 U.S. 594 (1953); *Standard Oil Co. v. United States*, 337 U.S. 293, 306 (1949); *Jefferson Parish*, 466 U.S. at 16-18. An accurate analysis of market power in a relevant market thus is critical to the proper application of the Rule of Reason.

The market power requirement guards against a rigid application of *per se* analysis in tying cases. Like any other limitation on the *per se* rule, it should be compromised only in rare instances, specifically where the challenged practice has been shown—through experience—to virtually always harm competition. *See Continental T.V.*, 433 U.S. at 58-59 (explaining that any "departure from the rule-of-reason

standard must be based upon demonstrable economic effect rather than . . . upon formalistic line drawing"); *N. Pac.*, 356 U.S. at 5 (explaining that *per se* analysis is appropriate only for practices that have a "pernicious effect on competition and lack of redeeming virtue"). The market power presumption applied by the Federal Circuit panel below, however, has not been validated by experience, as decisions of this Court require. *See, e.g., Kodak,* 504 U.S. at 466-67.

There is no reason why the Court's approach to tying should be different where patent licensing is involved. The patent licensing context presents the same seller-buyer relationships as exist in typical tying cases under both the Rule of Reason and *per se* analyses: the patent owner sells licenses to its patents and the licensee buys those licenses. When the seller does not have market power in the tying product, the Rule of Reason is the proper mode of analysis even in tying cases. *See Jefferson Parish*, 466 U.S. at 29 (explaining that an antitrust plaintiff must prove a Rule-of-Reason violation in the absence of *per se* liability).

Moreover, positive benefits may flow from a variety of patent tying arrangements, such as efficiencies in ease of calculating license fees or in distribution. *See, e.g., Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 834 (1950) (holding non-mandatory package licensing of patents was not patent misuse), *overruled in part on other grounds by Lear, Inc. v. Adkins*, 395 U.S. 653 (1969); *United States v. Jerrold Elecs. Corp.*, 187 F. Supp. 545, 555-58 (E.D. Pa. 1960) (holding tying was not antitrust violation for entrant into new industry), *aff'd per curiam*, 365 U.S. 567 (1961).

III. By Effectively Shifting the Burden to the Patent Owner, the Presumption Encourages Accused Infringers Routinely To Allege Tying Antitrust Counterclaims

Accused infringers routinely used to plead antitrust counterclaims. Those counterclaims have significantly diminished in frequency, however, as the Federal Circuit and this Court have narrowed the areas in which an antitrust violation can be pleaded and proved without spending the very substantial resources needed to analyze and prove market realities.

Patent litigation already entails serious risk for the patent owner. According to a recent study, at the district court level, patent owners win only about fifty-eight percent of all patent suits, only about two-thirds of patents are held valid and about the same portion are held infringed, and the patent owners' win rate varies significantly depending on the jurisdiction in which the suit is brought. *See* Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. Rev. 889, 915-17 (2001).

High costs to litigate infringement cases already prevail. AIPLA conducts an annual economic survey of its members, which litigating parties regularly use as a basis for budgeting infringement litigation, as well as in determining the reasonableness of attorney's fees and costs. *See, e.g., View Eng'g, Inc. v. Robotic Vision Sys., Inc.*, 208 F.3d 981, 987-88 (Fed. Cir. 2000) (citing survey for attorney's fees); *Yurman Designs, Inc. v. PAJ, Inc.*, 125 F. Supp. 2d 54, 56 (S.D.N.Y. 2000) (same). The 2003 survey, the most recent year for which results are available, shows the median costs for an infringement suit are approximately $4,000,000

and the top twenty-five percent of the suits cost about $6,000,000. *See* Appendix attached hereto at A2, American Intellectual Property Law Assn., *2003 Report of the Economic Survey* 94 tbl. 22 (2003).

In AIPLA's experience, antitrust litigation costs add substantially to the total. Discovery alone in a typical antitrust case often involves hundreds of thousands of documents.[3] The magnitude of these costs represents a substantial burden on any company, regardless of size. They may be crippling to a mid-sized company, and prohibitive to small businesses, start-up companies, and individual inventors.

A tying antitrust claim without the presumption necessarily requires both sides to explore market issues and

[3] *See BE & K Constr. Co. v. Nat'l Labor Relations Bd.*, 536 U.S. 516, 528-29 (2002) (recognizing that privately initiated antitrust claims "may impose high discovery costs"); *Conrac Corp. v. AT&T Co.*, 546 F. Supp. 429, 432 (S.D.N.Y. 1982) (noting that "the costs of defending even the most unmeritorious antitrust claims are often high"); William H. Wagener, Note, *Modeling the Effect of One-Way Fee Shifting on Discovery Abuse in Private Antitrust Litigation*, 78 N.Y.U. L. Rev. 1887, 1889 (2003) ("Given the sweeping language of the Sherman and Clayton Acts and the necessarily vague rulings pronounced by courts interpreting the statutes, a clever customer or competitor of a larger firm may be able to manipulate the history of the firm's behavior in the market to construct a facially plausible theory of wrongdoing—whether or not the firm's business practices are, in fact, anticompetitive. Once a claim has survived a motion to dismiss, a plaintiff often can credibly threaten to impose significant costs on the defendant through wide-reaching discovery." (footnotes omitted)); Frank H. Easterbrook, *The Limits of Antitrust*, 63 Tex. L. Rev. 1, 12-13 (1984) ("Litigation costs are the product of vague rules combined with high stakes, and nowhere is that combination more deadly than in antitrust litigation under the Rule of Reason.").

entails substantial costs to both sides. But the presumption shifts the bulk of the costs of the antitrust litigation to the patent owner. The presumption thus unfairly handicaps the patent owner by easing the burden for the antitrust plaintiff, thereby increasing the risk to the patent owner.

The presumption imposes a substantial evidentiary burden for the patent owner, because the Federal Circuit panel's decision limits the proof that can be offered. Specifically, the panel held that, to rebut the presumption, it is not enough to show the availability of alternatives to the tying arrangement. Rather, the patent owner must establish the price elasticity of the relevant products, which typically is expensive and time consuming. "The presumption can only be rebutted by expert testimony or other credible economic evidence of the cross-elasticity of demand, the area of effective competition, or other evidence of lack of market power." *Independent Ink*, 396 F.3d at 1352.

Thus, although the market power presumption may simplify that issue for the antitrust plaintiff, it forces the patent owner to introduce substantial, complex, and costly proof just to survive summary judgment. Yet, that shifting of cost and risk is not justified by practical experience.

Moreover, the presumption may provide an incentive to attempt to evade the limitations of a misuse defense by repackaging it as an antitrust claim. Under 35 U.S.C. § 271(d)(5) (2000), to establish misuse, the accused infringer must establish market power and would not receive the significant benefit of the presumption. *See Independent Ink*, 396 F.3d at 1349 n.7.

The Federal Circuit panel's decision has practical effects that may further increase the risk to the patent owner.

It can create confusion in the trial of patent and antitrust issues. For example, where an accused infringer also asserts a Sherman Act § 2 attempted monopolization claim, the jury will be asked to apply the presumption to the Sherman Act § 1 tying claim, but not to the Sherman Act § 2 attempted monopolization claim. *See Independent Ink*, 396 F.3d at 1353. The same can occur where an accused infringer asserts a misuse claim. *See Virginia Panel*, 133 F.3d at 869.

The combined effect of these factors skews the balance of power between the patent owner and the antitrust plaintiff substantially in favor of the antitrust plaintiff. This can have widespread implications for patent owners, since many arrangements involving patents can be characterized as ties. Licensing of numerous patents for a royalty based on total sales, for example, is a common practice that courts have subjected to an antitrust tying analysis. *See, e.g., Automatic Radio*, 339 U.S. at 834; *Zenith*, 395 U.S. at 137-39.

The increased cost and risk flowing from the presumption can coerce patent owners into compromising valid infringement claims and settling cases for less than they otherwise would. According to a recent study, about 95 percent of patent cases settle before the end of trial. *See* Jean O. Lanjouw & Mark Schankerman, *Protecting Intellectual Property Rights: Are Small Firms Handicapped?*, 47 J.L. & Econ. 45, 56 (Apr. 2004). Worse yet, in view of the enhanced risk of treble damage liability, the presumption may compel some patent owners not to enforce their rights at all. That would diminish the value of the exclusive rights afforded by a patent, which in turn may impair the willingness of inventors to innovate and disclose their inventions to the public through the patent system. The effect is not limited merely to cases of express ties, but

includes licenses in which the practical effect of a restriction may arguably create a tie.

In addition, shifting the burdens of proof may create an anomaly that it would be more difficult to establish the equitable defense of patent misuse than an affirmative antitrust violation. Yet, misuse proscribes conduct broader than an antitrust violation. "[A]s the Supreme Court has said, the patentee's act may constitute patent misuse without rising to the level of an antitrust violation." *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 668 (Fed. Cir. 1986), citing *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 140 (1969). Moreover, misuse cannot exist where the effect of the licensing does not improperly restrain competition. "'To sustain a misuse defense involving a licensing arrangement not held to have been *per se* anticompetitive by the Supreme Court, a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market.'" *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 706 (Fed. Cir. 1992), quoting *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001-02 (Fed. Cir. 1986).

These harmful effects are especially detrimental because of the Federal Circuit's central role in adjudicating patent disputes. The Federal Circuit is uniquely positioned among the circuit courts of appeals to handle patent-antitrust cases. Vested by Congress with sole nationwide jurisdiction over patent appeals in cases initiated with patent claims—which are the vast majority of cases involving patents—the Federal Circuit receives appeals that would otherwise have been decided by regional circuit courts of appeals. *See* 28 U.S.C. § 1295(a)(1) (2000). All appealed cases that raise a patent claim in the complaint will flow to the Federal Circuit.

See Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc., 535 U.S. 826, 829 (2002).

Accordingly, it is especially important that the Court reverse this presumption by the Federal Circuit panel.

CONCLUSION

For the foregoing reasons, AIPLA respectfully requests that the Court vacate the judgment below, hold that tying arrangements involving patent and other intellectual property rights are assessed under the Rule of Reason without any presumption of market power in a relevant market arising merely from the issuance of a patent, and remand the case to the Federal Circuit for further proceedings without that presumption.

Respectfully submitted,

Dated: August 4, 2005

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[EXCERPT]

AIPLA

Report of the Economic Survey 2003

PREPARED UNDER DIRECTION OF LAW PRACTICE MANAGEMENT COMMITTEE

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TABLE 22. Estimated Costs of Litigation, by Location of Primary Place of Work *(continued)*

		Location of Respondent's Primary Place of Work												
	Total Survey	Boston Area	NYC Area	Philadelphia-Wilmington	Washington DC Area	Other East	Metro Southeast	Other Southeast	Chicago Area	Minneapolis-St. Paul	Other Central	Texas	California	Other West
Estimate of Total Cost, Through End of Discovery and Inclusive, In a Patent Infringement Suit														
More than $25 million at risk														
End of discovery														
Number Reporting	253	10	17	14	33	16	9	7	23	9	34	19	42	19
% of total		*4%*	*7%*	*6%*	*13%*	*6%*	*4%*	*3%*	*9%*	*4%*	*13%*	*8%*	*17%*	*8%*
75th percentile ($000's)	$4,000	$3,000	$3,000	$4,000	$5,000	$3,000	$3,000	$2,000	$3,500	$2,000	$3,000	$6,000	$4,000	$2,000
Median ($000's)	$2,500	$2,500	$2,000	$4,000	$3,000	$1,000	$2,000	$1,000	$2,500	$1,500	$1,350	$4,000	$3,000	$1,500
25th percentile ($000's)	$1,000	$1,500	$1,000	$2,500	$2,000	$500	$1,000	$500	$1,500	$1,000	$750	$2,000	$2,000	$1,000
Inclusive, all costs														
Number Reporting	258	11	17	15	34	17	9	7	23	9	33	21	42	19
% of total		*4%*	*7%*	*6%*	*13%*	*7%*	*3%*	*3%*	*9%*	*3%*	*13%*	*8%*	*16%*	*7%*
75th percentile ($000's)	$5,996	$5,494	$5,009	$5,007	$7,990	$4,010	$5,006	$7,994	$5,494	$3,506	$6,506	$7,997	$6,006	$3,508
Median ($000's)	$3,995	$4,500	$3,750	$4,995	$5,000	$3,000	$3,500	$1,300	$3,506	$2,500	$2,250	$5,009	$4,997	$3,010
25th percentile ($000's)	$2,306	$2,506	$2,244	$2,506	$3,010	$1,991	$2,494	$806	$2,306	$1,994	$1,495	$4,003	$3,508	$2,206
Estimate of Total Cost, Through End of Discovery and Inclusive, In a Trademark Infringement Suit														
Less than $1 million at risk														
End of discovery														
Number Reporting	170	5	10	3	17	13	3	8	19	5	35	15	16	20
% of total		*3%*	*6%*	*2%*	*10%*	*8%*	*2%*	*5%*	*11%*	*3%*	*21%*	*9%*	*9%*	*12%*
75th percentile ($000's)	$248	$251	$251		$301	$201		$138	$250	$251	$151	$251	$375	$175
Median ($000's)	$150	$200	$200	$250	$152	$101	$120	$88	$199	$201	$100	$200	$200	$149
25th percentile ($000's)	$98	$99	$90		$148	$49		$51	$102	$198	$59	$149	$100	$99
Inclusive, all costs														
Number Reporting	166	5	9	3	18	13	3	8	17	5	35	15	14	20
% of total		*3%*	*5%*	*2%*	*11%*	*8%*	*2%*	*5%*	*10%*	*3%*	*21%*	*9%*	*8%*	*12%*
75th percentile ($000's)	$401	$801	$451		$500	$302		$205	$451	$451	$274	$401	$751	$349
Median ($000's)	$298	$400	$350	$750	$401	$298	$200	$138	$302	$350	$225	$302	$450	$251
25th percentile ($000's)	$198	$159	$174		$226	$119		$78	$269	$299	$102	$298	$300	$201

(8)

No. 04-1329

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS, INC. AND TRIDENT, INC.,

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

~~MOTION FOR LEAVE TO FILE BRIEF FOR *AMICUS CURIAE* AND~~ BRIEF OF *AMICUS CURIAE* BAR ASSOCIATION OF THE DISTRICT OF COLUMBIA — PATENT, TRADEMARK & COPYRIGHT SECTION IN SUPPORT OF PETITIONER

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ILLINOIS TOOL WORKS, INC. AND TRIDENT, INC.,

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MOTION FOR LEAVE TO FILE BRIEF FOR *AMICUS CURIAE* BAR ASSOCIATION OF THE DISTRICT OF COLUMBIA — PATENT, TRADEMARK & COPYRIGHT SECTION IN SUPPORT OF PETITIONERS

Pursuant to this Court's Rule 37.3(a), the Patent, Trademark & Copyright Section of the Bar Association of the District of Columbia ("BADC") respectfully moves for leave to file the attached brief in support of the Petitioners in this case. The written consent of Petitioners was obtained from counsel of record. The consent of Respondent was sought, but counsel of record did not respond to the BADC's request.

The BADC is one of the senior-most intellectual property bar associations in the United States, having a

membership drawn from government, industry and private practice. The BADC and its members have a substantial interest in the adjudication of significant issues defining our patent laws, and the BADC only submits *amicus curiae* briefs when issues of such magnitude arise. The case at bar presents an issue in which Supreme Court precedent has not been uniform, creating discrepancies that have significantly impacted the interpretation of our patent laws. The BADC seeks to assist the Court by directing its attention to apparent inconsistencies in its precedent regarding the definition of letters patent as monopolies.

Accordingly, the BADC respectfully requests that the Court grant this motion for leave to file the attached *amicus curiae* brief.

Respectfully submitted,

Dated: August 4, 2005

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BRIEF FOR *AMICUS CURIAE* BAR ASSOCIATION OF THE DISTRICT OF COLUMBIA — PATENT, TRADEMARK & COPYRIGHT SECTION IN SUPPORT OF PETITIONERS

THE INTEREST OF *AMICUS CURIAE*

The Patent, Trademark & Copyright Section of the Bar Association of the District of Columbia ("BADC") respectfully submits this brief as *amicus curiae* in support of Petitioners.[1]

The BADC is one of the oldest and most senior intellectual property bar associations in the United States uniquely situated in the nation's capital having a broad cross-section of members from government, industry and private practice, with members often representing both the patent owner and the accused infringer. The BADC functions in an entirely *pro bono* fashion in its efforts to aid the advancement and creation of a uniform body of case law to guide the patent community. The BADC has no stake in the parties to this litigation or interest in the result in the case, other than an interest in seeking correct and consistent interpretation of intellectual property law.

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[1] This *amicus curiae* brief is presented by the Patent, Trademark & Copyright Section of the Bar Association of the District of Columbia under Supreme Court Rule 37.3(a). A Motion for leave to file this brief is submitted herewith. In accordance with Supreme Court Rule 37.6, *amicus curiae* states that no counsel for a party authored any part of this brief. Only this *amicus curiae* made a monetary contribution to the preparation and submission of this brief. Counsel for *amicus curiae* prepared this brief on a *pro bono* basis.

STATEMENT OF THE CASE

Respondent Independent Ink, Inc. ("Independent Ink") filed suit seeking a declaratory judgment of non-infringement and invalidity of a printhead patent owned by Petitioners Illinois Tool Works, Inc. and Trident, Inc. (collectively "ITW"). Independent Ink later amended its complaint to allege that ITW violated Sections 1 and 2 of the Sherman Act by using its patent in an illegal tying arrangement.

The district court granted summary judgment in favor of ITW on both Section 1 and 2 Sherman Act claims. The court found that Independent Ink failed to show that ITW held market power in the relevant market for its patented printhead technology. But the district court sidestepped Supreme Court precedent that presumes market power exists in tying arrangements involving a tying product covered by a patent. On appeal, the United States Court of Appeals for the Federal Circuit ("Federal Circuit") reversed the district court's decision, holding that the district court was bound to follow valid Supreme Court precedent. This Court granted ITW's requests to review the Federal Circuit's decision.

SUMMARY OF THE ARGUMENT

The presumption of market power emanating from the mere grant of a patent should be abrogated, because it is not legally or practically aligned with contemporary patent and antitrust laws.

The misnomer that market power can be presumed solely from a patent arises in part from semantics. A patent grants the owner over a limited period of time the right to exclude others from selling products that embody the patented invention, but does not grant the owner the right to sell the product (*e.g.*, product features may be covered by someone else's patent) or ensure success in doing so (*e.g.*, someone else may sell an alternative, competing product). However, this Court loosely has referred to patents as granting a legal "monopoly," which term has significant meaning and connotations in antitrust law. The mischief that results goes beyond semantics by creating a general misperception that a patent in and of itself creates an antitrust-type of "monopoly" that is somehow exempt from the antitrust laws. The Court should clarify that patents are not *per se* monopolies under the antitrust laws.

ARGUMENT

I. A MONOPOLY REQUIRES THE ABILITY TO CONTROL A MARKET

To understand why characterizing a patent as a form of monopoly produces a Janus-like result, one should first consider what constitutes a monopoly under the antitrust laws.

A. Monopolies Are Prohibited Under the Sherman Act

Congress passed the Sherman Act in 1890 in response to the inordinate consolidation of power in several industrial markets (now codified at 15 U.S.C. § 1 *et seq.*) The Act sought to prevent anticompetitive behavior from destroying free market competition and injuring consumers. Senator John Sherman sponsored the Act to make illegal certain arrangements formed to "prevent full and free competition," and that would "advance the cost to the consumer." See THOMAS MORGAN, MODERN ANTITRUST LAW AND ITS ORIGINS at 25-30 (2d ed. 2001). What ultimately emerged was "An Act to Protect Trade and Commerce Against Unlawful Restraints and Monopolies." Id. at 30. Section 1 of this Act prohibits restraint of trade or commerce through contracts or combinations, essentially as Senator Sherman envisioned. Section 2, however, was added by amendment, and forbids monopolization or attempts to monopolize any part of trade or commerce. Id. at 28-30.

Section 2 has been read in concert with Section 1 as establishing a nexus between the types of acts forbidden and the objective of avoiding restraint of trade. Tying arrangements, such as those alleged in this case, fall within Sherman Section 1. See Indep. Ink, Inc. v. Ill. Tool Works,

Inc., 396 F.3d 1342, 1342-47 (Fed. Cir. 2005); see also Int'l Salt Co. v. United States, 332 U.S. 392 (1947).

B. A Monopoly Is an Unreasonable Restraint of Trade

"The term monopoly connotes the giving of an exclusive privilege for buying, selling, working or using a thing which the public freely enjoyed prior to the grant. Thus, a monopoly takes something from the people." United States v. Dubilier Condenser Corp., 289 U.S. 178, 186 (1933). Thus, under antitrust law, a monopoly precludes competitive access to an item of commerce previously in the public domain.

This Court has deemed tying arrangements to be unreasonable "whenever a party has sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product and a 'not insubstantial' amount of interstate commerce is affected." N. Pac. Ry Co. v. United States, 356 U.S. 1, 11 (1958). The sin of a tie-in arrangement is the "use of economic power in one market to restrict competition on the merits in another, regardless of whether the power takes the form of a monopoly or not." Id.

This Court noted in Northern Pacific "[a]lthough [Sherman Act § 1] is literally all-encompassing, the courts have construed it as precluding only those contracts or combinations which 'unreasonably' restrain competition." Northern Pacific, 356 U.S. at 4-5 (citations omitted). Accordingly, a monopoly is considered to be an unreasonable restraint of trade that offends our public policy notions of protecting market competition and the American consumer.

In order to be a monopolist, an actor must have the ability to control the relevant market for a given product. To this end, the Supreme Court has described a monopoly as an individual's or group's "complete dominion of something already existent." United States v. Line Material Co., 333 U.S. 287, 338 (1948). When interpreting Section 2 of the Sherman Act, this Court has noted that dominion over a market in a monopolistic sense requires the ability to control pricing and competition, which is determined in part by the degree of elasticity of the market. United States v. E.I. DuPont De Nemours & Co., 351 U.S. 377 (1956). Cross elasticity, the nature of the product at issue, and geographic limitations are a few of the factors considered when determining the scope of the market allegedly subject to monopoly. Id.

In sum, the term "monopoly" has specific meaning and connotation in antitrust law that go far beyond the mere right to exclude someone from selling a particular type of product with certain features.

II. MODERN PATENTS CONFER A RIGHT TO EXCLUDE, NOT A MONOPOLY

A. U.S. Patent Laws Evolved from Early European Notions of Monopolies

American patent law traces its origins, at least in part, to the evolution of British intellectual property law. See, e.g., MARTIN ADELMAN ET AL., CASES AND MATERIALS ON PATENT LAW 9-17 (1st ed. 1998) (discussing Venetian, Tyrolean, and British influences on the development of the U.S. patent system). Early British patent grants took two forms. One form was conferred on inventors to induce the genesis of technological advancements, which is akin to the modern patent right. The other form was bestowed by the

monarch on cronies to control the trade of an otherwise publicly available commodity to the benefit of only the patent recipient, which is akin to an antitrust-type monopoly. Justice Burton's dissent in Line Material explained these two prior forms of British patents:

> A patent to an inventor took nothing from the public which the public or the inventor's competitor's already had. By hypothesis, it dealt with a new asset available to civilization only through its inventor. The royal patent served to encourage the inventor to disclose his invention. By granting to the inventor the right to exclude all others from making, using or selling the invention for a limited time, it was felt that the public was well served by the invention's disclosure, its early availability under the patent and its later general availability to everyone. This procedure was popular. On the other hand, royal patents securing exclusive rights to private parties to conduct profitable enterprises to the exclusion of existing or available competitors were issued to show royal favor or to secure funds at the expense of the public. Such patents became highly unpopular.

Line Material Co. at 329-30. The monopoly-type royal patents, geared toward removal of an item of commerce from the public domain, were deemed invalid in The Case of Monopolies, Darcy v. Allein, 6 Co. Rep. 84b, [K.B.] 159 (1602). This judicial prohibition of monopoly-type patents was codified into English law by the Statute of Monopolies in 1624 (21 Jac. I, c.3, § I.). What survived was the inventor-type patent that rewarded an inventor with a *quid pro quo* of limited exclusivity in exchange for contributing

something new and useful to society. This concept has been molded over time into our contemporary patent system that drives the engines of innovation fueling our economy.

B. Patent Rights Are Not Exceptions to Antitrust Law

Our current patent laws provide for a patent grant that confers on the patentee "'the right to exclude others from making, using, offering for sale, selling, or importing the patented invention' in exchange for full disclosure of an invention." Markman v. Westview Instruments, Inc., 517 U.S. 370, 372 (1996) (citation omitted).

Although granting the right to exclude others from practicing a patented invention, nowhere does our patent statute confer the right to unreasonably restrain trade and monopolize a relevant market. Rather, as aptly summarized by the Federal Circuit, "[i]ntellectual property rights do not confer a privilege to violate the antitrust laws." In re Indep. Serv. Orgs. Antitrust Litigation, 203 F.3d 1322, 1325 (Fed. Cir. 2000). Indeed, Justice Burton shared this view, stating:

> The constitutional and long standing statutory approval of the exclusive rights of an inventor to make, use and sell products of his invention for a limited time was ample guaranty that the Sherman Act did not directly or impliedly repeal such approval. The prohibition of unreasonable restraints of trade and the approval of exclusive rights of inventors to their inventions for limited periods of time continued to exist together. This was nothing new. As long as inventors kept within their statutory exclusive rights, they were not

> engaging in unreasonable restraints of trade violating the Sherman Act.

Line Material, 333 U.S. at 341. Thus, our patent laws historically have permitted a patentee to exclude others from benefiting from his inventive efforts for a limited period of time. That right to exclude exists, however, separate from our antitrust law and its definitions of monopoly and monopoly power.

Nonetheless, throughout the years, patents erroneously have been called "legal monopolies," a misnomer that has caused confusion and the improper inference that a patent owner has *de facto* control over a given market. Realistically, an entity cannot monopolize a relevant market without having control over that domain. Using the antitrust term of art "monopoly" in connection with patent rights inadvertently infers that market control is inherent in the patent grant. No other sector of anti-competition law permits an inference of the ability to control market supplies, increase prices, and otherwise harm consumer interests. Rather, confirmation of other types of monopolies requires specific inquiry into the scope of the relevant market and its attendant characteristics. See United States Steel Co. v. Fortner Enters., Inc., 429 U.S. 610, 620 (1977). The same inquiry is required to fairly evaluate whether a patentee has strayed outside the metes and bounds of his patent rights in an anti-competitive manner.

This misnomer of defining a patent to be a "legal monopoly" may trace its origins to the English Statute of Monopolies, discussed above. Adherence to this centuries old statutory language perpetuates the misconception of the modern patent grant as a form of contemporary antitrust monopoly. Regardless of how the practice started, continued

reference to patents as "monopolies" erroneously blurs the lines between patent and antitrust laws.

C. Inconsistent Precedent Intermingles Patent and Antitrust Terms

Many sources employ contradictory language when describing the interface between the patent and antitrust laws. Unfortunately, this Court appears to be one of the culprits, based on some precedent that has labeled patents as "legal monopolies."

Many decisions of this Court have been careful to distinguish the patent grant from monopolies. Prior to the passage of the Sherman Act, the Court clearly distinguished between patent rights and anti-competitive monopolies.

> Letters patent are not to be regarded as monopolies . . . but as public franchises granted to the inventors of new and useful improvements for the purpose of securing to them, as such inventors, for the limited term therein mentioned, the exclusive right and liberty to make and use and vend to others to be used their own inventions, as tending to promote the progress of science and the useful arts, and as a matter of compensation to the inventors for their labor, toil and expense in making the inventions, and reducing the same to practice for the public benefit, as contemplated by the Constitution and sanctioned by the laws of Congress.

Seymour v. Osborne, 78 U.S. 516 (1871). The Seymour court invoked language separating patent grants from the concepts that were eventually codified in our antitrust laws.

Seymour was later cited for the principle that "[t]hough often so characterized, a patent is not, accurately speaking, a monopoly, for it is not created by the executive authority at the expense and to the prejudice of all the community except the grantee of the patent." Line Material at 339.

The Court apparently still embraces the teachings of Seymour, citing the above-quoted passage in a more recent patent case. See Pfaff v. Wells Elecs., Inc., 525 U.S. 55, 63-64 (1998). In a similar vein, the Court stated in an intervening case:

> Of course it is common knowledge that a patent does not always confer a monopoly over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the patent privileges is slight.

Northern Pacific, U.S. 356 at 10 n.8. In this instance, the Court recognized that patents do not always confer the economic power adequate to control market interplay, meaning a hallmark of a monopoly in the antitrust sense does not automatically attach to the patent grant.

Likewise, Justice O'Connor explained that patents do not automatically confer market power:

> A common misconception has been that a patent or copyright, a high market share, or a unique product that competitors are not able to offer suffices to demonstrate market power. While each of these three factors might help to give market power to a seller, it is also possible that a seller in these situations will have no market power in any relevant sense if

there are close substitutes for the patented product.

Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 28 n.7 (1984) (citation omitted). The Court has also instructed that a patentee's ability to suppress a competitor's activities "must be derived from its patent grant, and thus from the patent statute." Deepsouth Packaging Co., Inc. v. Laitram Corp., 406 U.S. 518, 526 (1972). Taken together, these Supreme Court cases have interpreted our patent laws to mean that a patent grant is not a monopoly as defined in antitrust precedent.

This theme has not been a consistent thread in our patent precedent. In one of the seminal cases in patent law, for example, the Supreme Court stated:

> A patent by its very nature is affected with a public interest . . . [It] is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that *patent monopolies* spring from backgrounds free from fraud or other inequitable conduct and that *such monopolies* are kept within their legitimate scope.

Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172, 177 (1965) (emphasis added). In Bonito Boats, the Court cautioned that "Congress may not create *patent monopolies* of unlimited duration." Bonito Boats, Inc. v. Thundercraft Boats, Inc., 489 U.S. 141, 146 (1989) (emphasis added). More recently, the Court opined that "[a]lthough recognizing the patent system's desirable

stimulus to invention, we have also viewed the patent as a monopoly which, although sanctioned by law, has the economic consequences attending other monopolies." Cardinal Chem. Co. v. Morton Int'l, Inc., 508 U.S. 83, 101 (1993) (citing Kerotest Mfg. Co. v. C-O-Two Co., 342 U.S. 180, 185 (1952)).

These references to patents as monopolies are at odds with the Court's teachings to the contrary. Notably, the Pfaff Court cited a circuit court decision as being "consistent" with Seymour , despite the fact that the circuit court decision refers to patent protection as a "monopoly." See Pfaff, 525 U.S. at 64. More recently, the Court discussed the patent grant in terms of being a "monopoly" and a "monopoly of knowledge," as well as an "exclusive right." Eldred v. Ashcroft, 537 U.S. 186, 216 (2003). It is unclear how a "monopoly of knowledge" would assure control of a relevant market.

Reference to patents as "monopolies" is troubling legally, and practically. Absent market power, as noted in Northern Pacific, and Jefferson Parish, a patentee does not possess the ability to impose the "economic consequences" associated with a true monopoly as per Cardinal Chemical and Walker Process. The danger of cloaking patent concepts in antitrust lingo rests in the inability of those not savvy in the complexities of patent law, such as juries, to understand the important nuances distinguishing patent privileges from unreasonable restraints of trade.

Federal Circuit precedent has helped clarify how a patentee's right to exclude differs from an antitrust monopoly. As sagely explained by Judge Rich over twenty years ago:

> The patent system, which antedated the Sherman Act by a century, is not an "exception" to the antitrust laws, and patent rights are not *legal monopolies* in the antitrust sense of that word. Accordingly, if a patent is held to have been obtained illegally, it is not properly said, *ipso facto*, that it was all along an *illegal monopoly* and, thus that its procurement and attempted enforcement was a *per se* violation of the antitrust laws. A holding that monopoly analysis should end in favor of liability on a determination of fraud, without more, would signal a fundamental misunderstanding of the substance and purposes of both the patent and the antitrust laws.

Am. Hoist & Derrick Co. v. Sowa & Sons, Inc., 725 F.2d 1350, 1367 (Fed. Cir. 1984). The Federal Circuit reiterated this view by noting "[a] patent alone does not demonstrate market power," meaning patent grants *per se* lack a component of the antitrust concept of a monopoly. Indep. Serv. Orgs., 203 F.3d at 1325 (citations omitted).

The above-cited Federal Circuit language, while clearly not binding on the Supreme Court, provides an accurate and understandable compass for navigating the contours of our patent and antitrust laws. This language is consistent with Supreme Court guidance set forth before and after the passage of the Sherman Act. Clarification by this Court that a patent grant is a right to exclude competitors from employing a claimed invention, as opposed to a *de facto* monopoly over the market in which the claimed invention resides, would greatly advance the ability of patent practitioners and judges to adjudicate issues straddling the fine line between patent and antitrust laws.

CONCLUSION

American patent and antitrust laws work in tandem to foster innovation, while protecting the public from the harms of undue restraints of trade. Patents confer a bundle of rights to a patentee, including the right to exclude others from employing the claimed invention during the patent term. A patent, however, is not a form of "legally granted monopoly." To the contrary, a monopoly is by definition an *undue or unreasonable* restraint of trade under our antitrust laws. There is nothing unreasonable about the *quid pro quo* provided to inventors under our patent laws. The BADC respectfully requests that the Supreme Court take this opportunity to clarify this issue confounding patent practice.

Respectfully submitted,

Dated: August 4, 2005

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No. 04-1329

In The

Supreme Court of the United States

ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.,
Petitioners,

v.

INDEPENDENT INK, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF THE DISTRICT OF COLUMBIA AND THE STATE OF CALIFORNIA AND THE STATES OF ARIZONA, FLORIDA, IOWA, LOUISIANA, MARYLAND, MASSACHUSETTS, MISSOURI, OHIO, TENNESSEE, UTAH, WEST VIRGINIA AND WYOMING AS AMICI CURIAE IN SUPPORT OF RESPONDENT

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QUESTION PRESENTED

Whether, in an action under Section 1 of the Sherman Act, 15 U.S.C. § 1, alleging that the defendant engaged in unlawful tying by conditioning a patent license on the licensee's purchase of a non-patented good, the plaintiff must prove as part of its affirmative case that the defendant possessed market power in the relevant market for the tying product, or whether market power instead is presumed based solely on the existence of a patent on the invention embodied in the tying product.

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INTEREST OF THE AMICI CURIAE

The District of Columbia and the State of California, along with other amici states listed on the front cover (collectively "the States"), by their attorneys general, file this brief as friends of the Court on behalf of Respondent, Independent Ink., Inc. ("Independent Ink"). The attorneys general, as the chief law enforcement officials for their respective states and the District of Columbia, enforce both federal and state antitrust laws and, thus, have a strong interest in the issues that this case raises before the Court. Specifically, the States have a profound interest in ensuring that the federal antitrust laws are interpreted in harmony with sound antitrust policy and relevant judicial precedent.

In their capacities as *parens patriae*, the states are empowered to protect consumers from violations of the federal antitrust laws. *See* 15 U.S.C. § 15c. The attorneys general represent the states in this capacity, as well as representing state government entities, agencies and political subdivisions that purchase vast quantities of patented and non-patented products and services.

SUMMARY OF ARGUMENT

Petitioners' proposed rule would increase the potential for patent holders to engage in anticompetitive tying of patented products and processes to other products and services. Petitioners ask this Court to "overturn the market power presumption and require that a plaintiff in a patent tying case . . prove as part of its affirmative case that the defendant actually possesses the requisite market power." Pet. Brief at 2-3. According to Petitioners, full-blown market power proofs are the only way that plaintiffs should be able to establish that a defendant actually has market power in a patent tying case.

Amici states urge this Court to retain a rebuttable presumption of market power for patent tying cases, while providing guidance to lower courts as to when and how to apply the presumption. Amici states believe that lower courts should apply appropriate weight to initial market power proofs presented by plaintiffs in patent tying cases, and, when justified, employ burden-shifting presumptions. That common sense approach would be similar in practice to the "quick look" doctrine under the rule of reason, which allows courts to short-cut full-blown market power analysis when particular facts make it easy to ascertain that a practice is anticompetitive. Indeed, it would be anomalous if common sense stream-lining of market power proofs were permitted in rule of reason cases, but forbidden in the *per se* context of patent tying cases. This Court's requirements for market power proofs in *per se* patent tying cases should not be more burdensome than in rule of reason cases.

This Court should affirm the Federal Circuit decision and direct lower courts that application of a rebuttable presumption of market power should resemble the "quick look" doctrine of rule of reason cases. Flexible use of a rebuttable presumption may be triggered by plaintiff's initial showing of the existence of a patent in combination with one or more other factors strongly indicating market power. This approach would streamline market power analysis in those patent tying cases where the existence of market power is more likely.

Therefore, amici states file this brief in support of affirmance of the Federal Circuit's opinion on the grounds that the rebuttable presumption of market power can be an appropriate and efficient judicial burden-shifting tool in certain patent tying cases.

ARGUMENT

I. THIS COURT SHOULD PERMIT FLEXIBLE USE OF THE *LOEW'S* REBUTTABLE PRESUMPTION

A. Requiring Full-Blown Proofs To Establish Market Power In Every Patent Tying Case Creates a Needlessly Great Burden on Plaintiffs and the Courts

To establish that a tying arrangement is a *per se* violation of Section 1 of the Sherman Act, 15 U.S.C. § 1, a plaintiff is required to show: (1) that there are two distinct products or services, (2) the sale of the tying product is conditioned upon the purchase of the tied product, (3) the seller has market power in the tying product, and (4) the tied product involves a "not insubstantial" amount of interstate commerce. *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 12-18 (1984). This Court has defined "market power" in this context as the ability to "force a purchaser to do something that he would not do in a competitive market," i.e., to purchase a tied product that the purchaser either does not want or does not wish to buy from the tying firm. *Id.* at 14.

In United States v. Loew's Inc., 371 U.S. 38, 45-46 (1962), the Supreme Court held that, in the context of Section 1 tying claims, "[t]he requisite economic power is presumed when the tying product is patented or copyrighted." The Court reasoned that "the existence of a valid patent on the tying product, without more, establishes a distinctiveness sufficient to conclude that any tying arrangement involving the patented product would have anticompetitive consequences." *Id.* at 46.

As the Federal Circuit explained in the decision below, the requirement of proving "forcing" or "market power" in cases

not involving intellectual property necessitates a definition of the market in which such power is alleged to exist and shown to have an "actual adverse effect on competition." 396 F.3d 1342, 1347 (citing *Jefferson Parish Hospital Dist. No. 2 v. Hyde*, 466 U.S. 2, 29-31 (1984)). Such proof typically requires the acquisition of expensive data, the use of an economist, and the ability to exclude virtually all possibilities that a defendant's market power does not adversely affect competition.

This Court has recognized the "enormous complexities" inherent in defining relevant markets and proving market power. *Federal Trade Commission v. Superior Court Trial Lawyers Ass'n*, 493 U.S. 411, 430-31 (1990) (citing R. Bork, The Antitrust Paradox 269 (1978)); *see also* Areeda & Turner, Antitrust Law ¶ 305e (2002) ("Often one of the most costly elements in antitrust litigation is delineation of the relevant market and another is the measure of actual anticompetitive effects."). Imposing complex and expensive proof burdens concerning market power in all patent tying cases would mean that many plaintiffs who could ultimately succeed in proving market power might be deterred from even bringing cases, due to the sheer expense and complexity of the litigation. Enforcement of patent tying prohibitions might well be limited to cases brought by the federal antitrust agencies, those state attorneys general with significant resources to devote to antitrust enforcement, or very well-funded private plaintiffs.[1] As a result, much plainly anticompetitive patent tying could simply go unchecked.

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[1] Petitioner's portrayal of a requirement of full-blown market power analysis in all patent tying cases as a litigation cost-saving mechanism rings hollow with any plaintiff that has borne the expense of the expert economic testimony needed to present a full-blown market power analysis. The application of a rebuttable presumption of market power as urged by amici states is relatively inexpensive and straightforward.

B. There are Reasonable Options for this Court Short of Requiring Full-Blown Proofs of Market Power in Every Patent Tying Case

Petitioner and other amici make some creditable arguments that the application of the *Loew's* presumption is not appropriate in all patent tying cases. However, it does not follow from the conclusion that a bright-line rebuttable presumption of market power is inappropriate in some cases, that the sole option remaining for the Court is to require all plaintiffs to engage in a full-blown market power analysis in every patent tying case. Rather, there are many methods by which this Court can retain the presumption while respecting the rights of intellectual property holders. Such a balancing of competing interests is no rarity in antitrust jurisprudence, an area of the law which "is filled with presumptions."[2]

We respectfully suggest that this Court direct that where plaintiffs in patent tying cases provide sufficient initial evidence of market power, lower courts need not engage in full-blown analysis of market power, but may instead use a "quick look" approach, similar to that used under the rule of reason. *California Dental Ass'n v. FTC*, 526 U.S. 756 (1999). As Justice Souter stated there, "quick-look analysis carries the day when the great likelihood of anticompetitive effects can easily be ascertained." *Id.* at 770. As indicated earlier, it would be anomalous if expeditious analysis of market power issues were permitted in rule of reason cases, but forbidden in the *per se* context of patent tying cases.

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[2] "Some [presumptions] are very firm and admit of very few exceptions. Some allow more exceptions. . . . . Whether formal or informal, intense or weak, fixed or rolling, such presumptions are the means by which we reach intelligible and consistent conclusions in the uncertain world of antitrust." Phillip Areeda & Donald F. Turner, Antitrust Law ¶ 305f (2002).

There are practical ways for this Court to guide lower courts in the flexible use of the market power rebuttable presumption. For example, evidence sufficient under a "quick look" to trigger the *Loew's* presumption of market power could include the factors suggested by the Ninth Circuit in its *Digidyne Corp. v. Data General Corp.* decision. 734 F.2d 1336 (9th Cir. 1984). In *Digidyne*, the court considered whether (1) there was any appreciable number of consumers who were locked into the tying product, (2) whether the tying product was unique in the marketplace, (3) whether the tying product was more appealing to consumers and viewed as superior to its closest competitors, and (4) whether a competing product could be produced without infringing upon the tying product's patent. Other potential indicia of market power could include a substantial differential in price or conditions of sale between the patented product and other products providing similar functionality. A plaintiff that can establish both the fact of defendant's patent and at least one additional factor tending to show market power would be entitled to the benefit of the *Loew's* presumption.

Proof of one or more of "plus" factors, in combination with a patent, could signal to a court that the particular tying arrangement at issue might well have a negative impact on consumers, and justify application of a rebuttable presumption. This quick look "patent plus" factor test would allow courts to identify those cases where full-blown market power analysis is not necessary to reach the conclusion that market power exists.

Under the "patent-plus" approach, if a plaintiff establishes a presumption of market power based on the existence of the patent plus one other factor tending to show market power, the burden would then shift to the defendant to rebut this presumption and "to show that in the entire factual setting . . the patent does not create the market power requisite to illegality of the tying clause. . ." *Susser v. Carvel Corp.*, 332

F.2d 505, 521 (2d Cir. 1964) (citing The Report of the Attorney General's Committee to Study the Antitrust Laws (1955), 238). As the Federal Circuit stated below, the presumption could be rebutted "by expert testimony or other credible economic evidence of the cross-elasticity of demand, the area of effective competition or other evidence of lack of market power." 396 F.3d at 1352.

The facts in this case provide a good example of how a flexible presumption of market power could be applied in order to allow courts to reach correct results in an efficient manner. Briefly stated, Respondent Independent Ink is an aftermarket manufacturer of specialty inks for use in various inkjet printing applications. Independent Ink developed an ink specifically designed for use in Petitioner Trident-ITW's ("ITW") patented piezoelectric inkjet print-head systems. However, as a condition of sale, ITW's contract requires all purchasers of its print-heads to buy all ink supplies exclusively from ITW. That is, ITW ties the sale of its patented inkjet printers to its non-patented inks.

Respondent alleged that the ITW practice constituted an illegal *per se* tie under Section 1 of the Sherman Act, 15 U.S.C. § 1.[3] At summary judgment, Respondent cited only one undisputed fact – that the Petitioners' print-head was patented and a license to the print-head was preconditioned upon an agreement that licensees purchase all ink requirements from the Petitioner. 210 F. Supp. 2d 1155, 1160 (C.D. Ca. 2002). The District Court granted summary judgment to Petitioners on the grounds that the Respondent was not entitled to a presumption of market power and had not put forth proof of ITW's market power. When the Court of Appeals for the Federal Circuit reversed the District Court's Section 1 holding, it held that

[3] Respondent also alleged that the tie violated Section 2 of the Sherman Act.

Respondent was entitled to a presumption that ITW had market power in its patented print-head system, based upon the Court's *United States v. Loew's Inc.* decision.

Should this Court modify the *Loew's* presumption to require a showing of a plus factor in addition to the patent, the remand instructions should provide an opportunity for the Respondent to provide sufficient proof of a plus factor. For example, Respondent may be able to offer testimony to corroborate the Federal Circuit's description of Trident's print-head as an invention that "overcomes the usual complexity and expense" associated with other competing devices. 396 F.3d at 1345.

C. An Appropriately Limited Rebuttable Presumption is Fair

The rebuttable presumption urged by amici states does not inhibit intellectual property holders from seeking to protect their inventions. Nor is a rebuttable presumption a premature conclusion about whether a given patent has conferred market power. Rather, a rebuttable presumption is a mere burden shifting device.[4]

In support of its argument for eliminating the *Loew's* presumption, Petitioner points mostly to the legal right of patent holders to protect the inventions that they developed and to profit from the monopoly that is justly due under intellectual property laws. Court use of a burden shifting presumption does not deprive patent holders of their legitimate rights. The

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[4] This Court consistently recognizes the virtue of rebuttable presumptions, even in cases where constitutional due process and liberty are at stake. See, e.g., *Hamdi v. Rumsfeld*, 542 U.S 507, 602 (2004) ("[T]he Constitution would not be offended by a presumption in favor of the Government's evidence, so long as that presumption remained a rebuttable one and fair opportunity for rebuttal were provided").

antitrust tying offense as defined in this Court's *Jefferson Parish* decision involves strategic, manipulative, and anti-competitive use of patents and patent licenses that forecloses competition in product markets that do not include the patented products. Such conduct is generally unprotected by patent laws.

Petitioner cites studies that purport to demonstrate that most patents do not, in fact, convey market power. Pet. Brief at 25-26. But even if it is true that some 95% of patents do not result in a marketed product or royalty payments, the mere fact that a particular patent is involved in patent tying litigation means that the particular patent is one of the 5-10% of patents which has resulted in a marketed product. Most important, knowing the percentage of patents that do not get to market sheds little light on proper antitrust treatment of patents that do get to market, particularly the evidentiary issue of the extent of proof required to establish market power in tying cases.

Analysis of evidentiary issues in tying cases is not advanced by Petitioner's proclamation that all patents have only potential market power and that all tying is efficient and so must be pro-competitive. What must be true is that some, but not all, patents confer actual market power and some, but not all, patent tying is harmful to consumer welfare. The goal of the courts then must be to efficiently identify those patent ties that are anticompetitive within the meaning of *Jefferson Parish* and stop them. As discussed above, the most efficient way for the courts to do that is not through full-blown market power analysis in every case. Rather, where the strength of facts initially presented by plaintiffs makes it appropriate, the courts should require patent tying firms to take on the evidentiary burden of demonstrating why a particular tie is competitively neutral or procompetitive.

Concerns have been expressed by intellectual property holders such as amicus Pfizer Inc., which argues that bundled patent licensing is critical to the drug development partnerships commonly used to bring innovative medicines to market. *See* Pfizer Amicus Brief at 4-5. However, a flexibly applied presumption of market power in patent tying cases neither invalidates pro-competitive arrangements nor makes them particularly more likely to be challenged by antitrust plaintiffs. Defensible tying arrangements, those with benign effects or procompetitive aspects, will be upheld by the courts regardless of whether there is a rebuttable presumption of market power. In cases where a rebuttable presumption of market power is applied, patent tying cases would remain fact-specific inquiries that would not, in competent fact- finder's hands, render arrangements that benefit consumers illegal. It is likely that legitimate cooperative research and development arrangements would easily survive a patent tying challenge claim (assuming there were a qualified private plaintiff with standing to bring such a claim) and are, in any event, given special protection under various antitrust doctrines and statutes. *See, e.g.*, Department of Justice and Federal Trade Commission Antitrust Guidelines for Collaborations Among Competitors, 4 Trade Reg. Rep. (CCH) ¶ 13,161 (April 2000); Thomas B. Leary, Commissioner, Federal Trade Commission, Intellectual Property and Antitrust: Navigating the Minefield (May 3, 2001) available online at http://www.ftc.gov/speeches/leary/ipspeech.htm ("There has never been an antitrust prosecution of a pure research joint venture, without collateral restraints.").

II. PRECLUDING REASONABLE COURT USE OF THE REBUTTABLE PRESUMPTION WILL PUT UNDESIRABLE BURDENS ON GOVERNMENT ANTITRUST ENFORCERS

State antitrust enforcers expend considerable investigation and litigation resources seeking to protect both state agencies and the consumers they serve from anticompetitive business arrangements. In recent years, patent tying complaints have been relatively rare, even as state attorneys general have become more active in antitrust enforcement overall.[5] The most likely reasons for the lack of patent tying cases include the existence of the *Loew's* presumption and the fact that there is little justification for patent tying in many situations.

The early 1990's case against Sandoz Pharmaceutical Corporation is an example of the harm that patent tying can cause, and the need to protect efficient government prosecution of such matters. Several dozen states and the District of Columbia filed suit against Sandoz and Caremark for allegedly tying the purchase of Sandoz's patented schizophrenia medication clozapine to a Caremark monitoring service that checked patients for a potentially fatal condition that could be a side effect of the drug. *In re Clozapine Antitrust Litigation*, MDL 874 (N.D. Il. 1992). The monitoring services that Sandoz tied to the purchase of clozapine could have been provided by any number of pharmacies, laboratories, state agencies, or even the patients' own physician. In response to the litigation brought by the states and class counsel and an investigation by the Federal Trade Commission, Sandoz and

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[5] For example, the Office of the California Attorney General, recipient of hundreds of complaints about all manner of fair competition concerns each year, has opened only one investigation involving patent tying concerns in the last five years.

Caremark discontinued the tie and began to sell clozapine without requiring that patients also purchase monitoring. *See Sandoz Pharmaceuticals Corporation; Prohibited Trade Practices, and Affirmative Corrective Actions*, 57 Fed. Reg. 36403 (1992); Christina Robb, *Drug Firm Facing Antitrust Suit, Drops its Aftercare Restrictions*, Boston Globe, June 23, 1991 at 12.

The State of California's recent case against Econolite Control Products, Inc. also illustrates the harm that patent tying can inflict, and the need to preserve efficient prosecution. *See* Complaint, California v. Econolite Control Products Inc. (filed April 22, 2004 L.A. Sup. Ct.); *see also* David Haldane, *Traffic Light Supplier Sued by State*, LA Times, April 23, 2004 at B3. Econolite manufactures a traffic controller that is specified in many public works projects. While its prevalence in California public works projects alone gives it market power, once a system uses one type of controller, it is virtually "locked in" to using that controller for an entire system or risk losing both functionality and training expenditures. Econolite tied the purchase of its patented controllers to non-patented items used in public works projects such as light poles and emergency vehicle system products. The harm is, among other things, that the patent's exclusionary power kept Econolite's competitors from offering a controller or other parts compatible with Econolite's traffic controller system.

One can envision a hypothetical situation where a pharmaceutical company requires a state government purchaser to purchase a package of products in order for the state to obtain one of the company's popular products. Courts certainly do not need a full-blown market power analysis to understand the dangers of this type of arrangement and the risk of public dollars going to support supra-competitive pricing. Critics may argue that this scenario is unlikely, but they fail to take

into account that it may be the *Loew's* presumption that now curbs this type of behavior. Justice will be served if state antitrust prosecutors are able to efficiently investigate and prosecute such a case. Permitting application of the *Loew's* presumption in appropriate cases will further that goal.

CONCLUSION

For the reasons stated, amici states urge this Court to affirm the decision of the Federal Circuit and to provide guidance to the lower courts concerning application of the *Loew's* presumption to appropriate patent tying cases.

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No. 04-1329

IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS, INC., *et al.*,

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF OF THE HOUSTON INTELLECTUAL PROPERTY LAW ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF PETITIONERS

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QUESTION PRESENTED

The amicus curiae will address the following question:

1. Whether, in an action under Section 1 of the Sherman Act, 15 U.S.C. § 1, alleging that the defendant engaged in unlawful tying by conditioning a patent license on the licensee's purchase of a non-patented good, the plaintiff must prove as part of its affirmative case that the defendant possessed market power in the relevant market for the tying product, or market power instead is presumed based solely on the existence of the patent on the tying product.

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INTERESTS OF THE *AMICUS CURIAE*

The Houston Intellectual Property Law Association (HIPLA) is an association of over 400 lawyers and other professionals who work in the Houston, Texas area.[1] The practice of most of the HIPLA membership relates in substantial part to the field of intellectual property law. Founded in 1961, HIPLA is one of the largest regional associations of intellectual property practitioners. No HIPLA member has served as record counsel to any party in the subject of this appeal.

HIPLA members often are called upon to advise their clients in matters that fall within the nexus of antitrust law and intellectual property law. HIPLA believes that the decision of the Federal Circuit in this case, holding that a court must presume that the existence of a patent confers market power for the purposes of a tying claim under Section 1 of the Sherman Act, departs from economic reality. Though sympathetic to the Federal Circuit's view that it was bound by this Court's precedent to reach the decision it did, HIPLA believes, based on the experience of HIPLA members in procuring patents for their clients, and in counseling clients on management of their patent portfolios, the existence of a patent has no measurable impact on demand for a product covered by the patent, and does not confer market power in the relevant market.

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1. No counsel for a party authored this brief in whole or in part, and no person or entity other than *amicus curiae*, its members or counsel, has made a monetary contribution to the preparation or submission of this brief.

The continuing viability of the market power presumption for purposes of a Section 1 tying claim falls squarely within the question presented by Illinois Tool Works, Inc.'s petition. This amicus curiae respectfully requests that this Court reverse the Federal Circuit's holding in this case.[2]

BACKGROUND

The petitioner in this case owns a patent on a printhead used in applying barcodes to objects moving on an assembly line. The petitioner licenses the use of the patented printhead, and further requires its licensee to buy ink—an unpatented product, for use with the printhead—exclusively from the petitioner. The Court of Appeals for the Federal Circuit found that requirement to be an illegal tying agreement violative of Section 1 of the Sherman Act.[3]

A presumption that the issuance of a patent confers upon its owner market power[4] in the relevant market to which the patent pertains creates a "one-size-fits-all" rule that permits the plaintiff to file suit on a Section 1 tying claim without needing to demonstrate proof of the defendant's market power, and shifts the burden to the defendant to prove that

2. HIPLA has received written consent from both Petitioner and Respondent to file this *amicus* brief.

3. *See Independent Ink, Inc. v. Illinois Tool Works, Inc. and Trident, Inc.*, 396 F.3d 1342, 1345 (Fed. Cir. 2005).

4. "Market power" has been defined as "the ability profitably to maintain prices above, or output below, competitive levels for a significant period of time." *See* U.S. Dep't of Justice and Fed. Trade Comm'n, Antitrust Guidelines for the Licensing of Intellectual Property, § 2.2 "Intellectual property and market power" (1995).

its patent did not confer market power. The market power presumption has long been criticized by commentators, who have been virtually uniform in stating that most patents confer no market power at all.[5]

In reaching its decision in this case, the Federal Circuit took note of the criticism levied against the market power presumption, but recognized that it was bound by this Court's precedent to follow decisions of this Court that established the presumption, until such time as this Court chooses to abolish the presumption.[6]

SUMMARY OF ARGUMENT

The presumption that the mere issuance of a patent confers upon its owner market power in the relevant market for purposes of Section 1 tying claims is not supported by economic reality, and should be abolished. The presumption is inappropriate because the market power, if any, that a

5. *See, e.g.*, Herbert Hovenkamp, Federal Antitrust Policy § 10.3 ("[M]ost patents confer absolutely no market power on their owners. . . . The economic case for 'presuming' sufficient market power . . . simply because the tying product is patented . . . is very weak."); Richard A. Posner, Antitrust Law 197-98 (2d ed. 2001) ("[M]ost patents confer too little monopoly power to be a proper object of antitrust concern. Some patents confer no monopoly power at all."); National Institute on Industrial and Intellectual Property—1984, "The Value of Patents and Other Legally Protected Commercial Rights," 53 Antitrust L.J. 535 (1985) ("A patented product may well be unique. It may, however, face a lot of substitutes, perhaps equally unique; and, as a result of this extensive availability of substitutes, confer very little, if any, monopoly power.") (comments of Professor F.M. Scherer, professor of economics, Swarthmore College).

6. *Independent Ink, Inc.*, 396 F.3d at 1350-51.

particular patent may confer will be unique to that patent, and will depend significantly upon the level of skill with which the patent was drafted, as well as the characteristics of the industry in which the patent will be used.

Though some patents drafted with claims having significant breadth and covering truly innovative inventions in certain industries may be able to confer market power on the patentee, this will be the exception rather than the rule. Indeed, the presumption of market power as being created by the mere issuance of a patent may be most effectively belied by this single fact: over half of all patents have been permitted by their owners to expire within a decade after their issuance, for failure to pay relatively insubstantial maintenance fees that are periodically due to the Patent Office. If market power in the relevant market truly were created by the mere issuance of a patent, one would expect nearly all patents to remain in existence until their natural termination; yet such is not the case.

Given the lack of evidence to support the market power presumption, the burden of proving market power in a Section 1 tying case is more appropriately allocated to the plaintiff than the defendant.

ARGUMENT

While each patent represents an invention that the U.S. Patent and Trademark Office has found new, useful, and nonobvious, not all patents are of equal value. The value of a patent may depend upon, for example, the industry in which the patented invention will be put to use. It may depend upon the degree to which the patented invention represents an improvement over the previous state of the art in that industry. And it may depend upon the skill of the drafting and prosecuting attorney. For reasons such as these, generalizations about the impact of a patent on a patentee, or a market, are problematic.

As an association of intellectual property practitioners, this amicus is particularly well-suited to provide insight on the question presented in this case. Members of this amicus are involved on an almost daily basis with assisting individuals and corporations in procuring patents, and subsequently helping them manage and license their patent portfolio. As such, this amicus has had the opportunity to observe first-hand that the market power presumption at issue in this case is unsupported by economic reality.

Our experience has been that the mere existence of a patent is no substitute for actual proof of market power. The issuance of a patent to an inventor or corporation, in all but the rarest cases, has no measurable impact on the demand for the patented product. This conclusion is further buttressed by recent empirical evidence pertaining to the operation of our patent system and the behavior of patentees. The one-size-fits-all presumption that the issuance of a patent confers market power upon the patentee is, in our view, not supportable.

A. The Issuance of a Patent Seldom Creates Market Power for the Patentee, Whether an Individual or a Corporation

The market power presumption has two significant drawbacks. First, it presumes that every patent has the same impact on the relevant market for the invention described and claimed therein. Second, it presumes that that impact is to confer market power in the relevant market upon the patentee. Both of these are contrary to the experience of this amicus.

1. Each Patent Has a Different Impact on the Relevant Market for the Patented Invention

The impact, if any, that a particular patent may have on the relevant market for the patented invention will be unique to that patent, and will depend significantly upon the level of skill with which the patent was drafted, as well as the characteristics of the industry in which the patent will be used.

A well-written patent application, drafted with sufficient knowledge of the relevant prior art, may have claims that maximize the scope of exclusivity while carefully avoiding overlap into the prior art. Such an application may be allowed to issue by the U.S. Patent and Trademark Office, without need for amendment or for potentially limiting arguments seeking to distinguish the claimed invention from art cited by the Examiner.

On the other hand, a patent application that is poorly drafted, or that was drafted without benefit of sufficient knowledge of the relevant prior art, may require significant

amendment during its prosecution through the Patent Office, which amendments may later estop the patentee from receiving the broadest possible interpretation of the patent claims.[7] In some circumstances, a patent that is not well drafted may contain claims that seek to protect too little of the patented invention, thereby permitting competitors to easily "design around" the patent. *See Johnson & Johnston Assocs. v. R.E. Service Co., Inc.*, 285 F.3d 1046, 1054 (Fed. Cir. 2002) (holding that subject matter disclosed by a patent, but not claimed therein, has been dedicated to the public). A patent that easily can be designed around has little value at all, and consequently, cannot confer any market power.

In addition to the level of skill with which the patent has been drafted, the industry to which the patent pertains is another factor that strongly impacts the market power, if any, that a patent may confer. The factors that determine market power—including the range of substitutes for the patented product, barriers to entry that may limit the patentee's ability to place his or her product in the hands of consumers, sophistication of buyers, and the like—differ between industries.[8] These differences are shown by recent scholarship that attempts to measure the value of United States patents.

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7. *See Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd. et al.*, 535 U.S. 722, 733-36 (2002) (stating that when an amendment is made to secure a patent, and the amendment narrows the scope of the patent, the patentee may be estopped from arguing that territory surrendered by the amendment should be deemed equivalent to the literal claims of the issued patent).

8. Herbert Hovenkamp et al., IP and Antitrust, § 4.2c (2005) (noting that the range of substitutes for the patented product or process from which the consumer may choose may be quite large, notwithstanding the patent).

Allison et al. hypothesized that litigation over a patent was a characteristic indicating that such patent had value to its owner.[9] They then studied 1,000 randomly selected patents that issued between June 1996 and May 1998, and 300 randomly selected patents that issued during the same period and that were the subject of infringement litigation terminated during 1999-2000.[10] Each of the 1,300 patents was assigned to a technology category (*e.g.*, pharmaceuticals, semi-conductors, chemistry, energy-related, and the like).[11] Allison et al.'s analysis found that the likelihood that a particular patent would be litigated—an indication of the patent owner's perception of the patent's value—differed significantly from industry to industry.[12] Other studies attempting to value patents similarly found evidence that patent value is very industry-specific.[13]

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9. Allison et al., "Valuable Patents," 92 Geo. L.J. at 437.

10. *Id.* at 446.

11. *Id.* at 472.

12. *Id.* at 472-75.

13. For example, Barney evaluated the rate at which patents in six disparate technology classes were abandoned by their owners prior to expiration for failure to pay maintenance fees, and found significant variations. Jonathan A. Barney, "A Study of Patent Mortality Rates: Using Statistical Survival Analysis to Rate and Value Patent Assets," 30 AIPLA Q.J. 317, Table 2 (2002). *Cf.* Steven C. Carlson, "Patent Pools and the Antitrust Dilemma," 16 Yale J. Reg. 359, 385 (1999) (opining that patents are most valuable in the pharmaceutical industry, and noting that even in that industry, only about two of every ten patents typically produce value for their holders).

2. Only in Rare Circumstances Does Issuance of A Patent Confer Market Power Upon a Patentee

Though some patents drafted with claims having significant breadth and covering truly innovative inventions in certain industries may be able to confer market power on the patentee, the experience of this amicus is that such will be the exception rather than the rule.

The issuance of a patent to a corporation cannot be presumed to convey market power, or even value, to the corporation. IBM once surveyed 10,000 of its patents, to find that only 40 had any measurable value.[14] And a general counsel for a major American software manufacturer recently acknowledged that 97% of his company's patent applications on file at the time were directed toward procuring patents that merely would be "nice to have," while 3% of the patent applications were directed towards "truly core" inventions that could markedly impact the company.[15] Clearly, even for corporations, the receipt of a particular patent cannot be said to automatically confer value, or market power.[16]

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14. James E. White, "The U.S. First-to-Invent System, the Mossinghoff Conclusion . . . and Statistics," 85 J. Pat. & Trademark Office Soc'y 357, 362 (2003). As to those 40 patents, the value was substantial. Not so, the other 9,960.

15. John R. Allison et al., "Valuable Patents," 92 Geo. L.J. at 461 n.111.

16. The United States Patent and Trademark Office does not consider the intrinsic "value" of an invention in deciding whether to allow an application to issue as a patent. If the patent application meets the technical requirements of 35 U.S.C. § 112, the Patent Office

(Cont'd)

This is not to say that patents are not beneficial to corporations—far from it. The point is merely that patents are useful to corporations for many reasons, few if any of which have anything to do with seeking market power.

Patents are especially attractive to start-up corporations, which may file patent applications as a way to garner attention and funding from investors:

> [Some] companies, especially start-ups, obtain patents as a financing tool. Venture capitalists use client patents . . . as evidence that the company is well-managed, is at a certain stage in development, and has defined and carved out a market niche.[17]

Thus a patent may enable a start-up corporation to demonstrate its technological sophistication in a particular niche in a market. This does not, however, automatically establish the start-up as a dominant player in the market.

The start-up that seeks to produce a patented product still will need to fund the manufacture of the product and its distribution into the marketplace, with no guarantee that the

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(Cont'd)
is required to issue a patent if the invention is "useful" (*see* 35 U.S.C. § 101), "new" (*see* 35 U.S.C. § 102), and "non-obvious" (*see* 35 U.S.C. § 103). For that reason, the Patent Office has issued patents on such "inventions" as a "Method of Swinging on a Swing" (U.S. Patent No. 6,368,227), a "System and Method for Providing Reservations for Restroom Use" (U.S. Patent No. 6,329,919) and a "Motorized Ice Cream Cone" (U.S. Patent No. 5,971,829).

17. Mark A. Lemley, "Rational Ignorance at the Patent Office," 95 Nw. U. L. Rev. 1495, 1505-06 (2001).

product will gain acceptance in the market. The startup holding a patent on, for example, a research tool useful for drug design nonetheless may find itself unable to stop a competitor from arranging to have the process covered by the research tool patent practiced overseas, with the results electronically transmitted to the competitor from the offshore lab. *Cf. Bayer AG v. Housey Pharms.*, 340 F.3d 1367, 1377 (Fed. Cir. 2003) (finding no infringement from overseas practice of patented research tool method on the grounds that Section 271(g) of the Patent Act pertains only to physical goods, and not to information yielded from a patented process).

In the middle of the spectrum, a more mature corporation may seek patents to leverage itself into a market. For example, an established company trying to expand into different market segments could be faced with competitors' patents that might exclude it from those market segments. The expanding company may seek to obtain its own patents on products and/or processes that its customers and competitors find attractive. The company could then use its new patents to "horse trade" licenses under its patents for licenses under its competitors' patents, thereby expanding the scope of services that the company could offer. In that scenario, the issuance of patents to different companies, and the resulting cross-licenses under those patents, would actually *increase* competition in the market.

And at the far other end of the spectrum, a very large corporation may assemble a patent portfolio for other, more defensive purposes, such as to protect its technology from usurpation by its competitors:

> Large companies in many industries hold patents for defensive purposes—to deter other large companies from suing them. The result is a sort of 'mutually

> assured destruction' in which very few companies actually sue for patent infringement because they know that, if they do, their opponents will also be able to sue them for patent infringement. If there are any patent disputes at all between these companies, they tend to end in royalty-free cross-licenses.[18]

In addition to "defensive patenting," many large companies may patent to maintain their reputation as an industry leader, or even for the benefit of being able to advertise their product as comprising "patented technology."[19]

In sum, the experience of this amicus is that the issuance of patents to corporations often promotes competition within an industry, and rarely confers market power to the corporate patentholder.

In addition to patents granted to corporations, a substantial number of patents issue each year to individuals, who on average are unlikely to have the resources necessary to be able to leverage a single patent into market power in the relevant market. A comprehensive study of all United States patents issued between 1963 and 1999—2,925,537 patents in all—found that 18% of those patents were issued to the inventor (rather than to a corporation), or had been assigned to another individual.[20] Data provided by the Patent Office confirms that a significant number of U.S. Patents

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18. Allison et al., "Valuable Patents," 92 Geo. L.J. at 468.

19. Lemley, "Rational Ignorance at the Patent Office," 95 Nw. U. L. Rev. at 1505-06.

20. John R. Allison et al., "Valuable Patents," 92 Geo. L.J. 435, 465 (2004).

continue to be issued to individuals, rather than corporations. In 2003, for example, 19,634 patents were issued to U.S. and foreign individuals, which represented 11.6% of all patents granted that year.[21]

Certainly an individual patentholder does receive from his or her patent the right to exclude others from practicing the patented invention. However, whether or not the individual has the resources to convert this right into actual market power is far from guaranteed. Indeed, it is unlikely. An individual patentee threatening to enjoin other, probably larger entities from infringing the patent may not be taken seriously by the alleged infringers, if the patentee continues to act alone. Competitors may have the mindset that an individual patentee probably will lack the resources to fund an expensive patent infringement suit. Unless the patentee transfers rights in the patent to a larger entity, or retains a law firm with the resources to mount a contingent fee infringement suit, the economic reality is that the individual patentholder likely will derive no value at all from the patent.

Where an individual patentee holds a patent on a product, and attempts to introduce it into the marketplace, such efforts may fail as often as not, in view of the likelihood that the patentee will lack name recognition by consumers, and may not have sufficient resources to build such recognition before burning through its available funds. The right to exclude is no substitute for, and has no impact on, consumer demand for the product.

Accordingly, the experience of this amicus is that the issuance of a patent rarely confers market power upon the patentholder, be it a corporation or an individual.

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21. *See* "Patenting by Organizations, 2003" *available at* http://www.uspto.gov/web/offices/ac/ido/oeip/taf/topo_03.htm.

3. Empirical Proof: More Than Half of All Patents Are Permitted to Expire Before The End of Their Terms

Finally, the presumption of market power as being created by the mere issuance of a patent may be most effectively belied by this single fact: over half of all patents are not in force within a decade after their issuance, for failure to pay relatively insubstantial maintenance fees that are periodically due to the Patent Office.[22] This phenomenon suggests either that the corporate owners of the patent had so little market power that they did not survive until the end of the patent term, or that the patentholders did not deem these patents worthy of payment of a few thousand dollars within a decade of a particular patent's issuance. If market power in the relevant market truly were created by the mere issuance of a patent, one would expect nearly all patents to remain in existence until their natural termination; yet such is not the case. It strains credibility to presume that the majority of all patent owners would spend tens of thousands of dollars to procure a patent,[23] actually receive from their patent the benefit of market power in the market in which

22. Allison et al., "Valuable Patents," 92 Geo. L.J. at 440-41 (finding that between half to two-thirds of all United States patents expire before the end of their term for failure to pay maintenance fees). Maintenance fees are due in varying amounts at various times after issuance of a patent: 3.5 years ($900), 7.5 years ($2,300), and 11.5 years ($3,800). *See* USPTO Fee Schedule, *available at* http://www.uspto.gov/web/offices/ac/qs/ope/fee2005jul18.htm.

23. Lemley, "Rational Ignorance at the Patent Office," 95 Nw. U. L. Rev. at 1498-99 (finding that the cost to prosecute a patent from start to finish, including application preparation and fees, ranged from $10,000 to $30,000 per application).

the invention will be used, then subsequently walk away from the whole endeavor within the next decade or so over a few thousand dollars.

B. Even in the Section 1 Tying Context, Market Power Should Not Be Presumed

The conclusion that a patent does not confer market power upon its owner is not altered even in the Section 1 tying context, where a licensee has agreed as a condition of the license to purchase an unpatented good in addition to making payments for the right to use the patented invention. This amicus recognizes the counterargument that may be raised—that market power should be presumed in Section 1 tying cases actually brought before a court, because those cases in which a licensee of a patent first accepts the tying arrangement and subsequently becomes motivated to bring an antitrust action likely may constitute most or all of the small fraction of cases in which the patentee actually does have market power in the relevant market. However, this counterargument ignores the possibility that the lure of treble damages for a successful antitrust plaintiff, coupled with the greater likelihood of success facilitated by the market power presumption itself may provide a significant incentive for the bringing of "nuisance" antitrust suits in cases where the patent confers no market power at all upon its owner.[24]

Moreover, a licensee may willingly agree to such arrangement for a number of legitimate reasons, none of which reflect anticompetitive forcing that is emblematic of market power. The licensee may be motivated to accept a

24 *Cf.* William Montgomery, Note, "The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements," 85 Colum. L. Rev. 1140, 1151 (1985).

tying arrangement because it is more convenient to purchase both the patented and the unpatented goods from the same supplier. Or, for example, the licensor may have an excellent reputation for quality as to both types of goods, which may sway the licensee towards accepting the tying arrangement. In some circumstances, quality control may be the driving force behind the patentee's insistence on tying the unpatented product to the patented one. The oft-cited example of the photocopier manufacturer insisting that its own copying cartridges be used exclusively with its product, out of concern that the use of an inferior cartridge could damage the patented photocopier, and thereby harm the patentee's reputation in the minds of some consumers,[25] is quite similar to the factual setting of this case.

Finally, it is noteworthy that both the Federal Trade Commission and the Department of Justice—two entities charged with the responsibility of the government's antitrust policy—have declined to presume market power from the existence of a patent, even in the Section 1 tying context.[26]

C. Abolishing the Presumption of Market Power Will Harmonize the Law With Economic Reality

The abolition of the presumption of market power in Section 1 tying cases will harmonize antitrust law with the realities of the marketplace without serving to deter genuinely aggrieved plaintiffs from bringing suit in Section 1 tying cases. Though

25. *See* Herbert Hovenkamp et al., IP and Antitrust, § 21.2a (2005).

26. U.S. Dep't of Justice and Fed. Trade Comm'n, Antitrust Guidelines for the Licensing of Intellectual Property § 5.3 "Tying arrangements" (1995) ("The Agencies will not presume that a patent, copyright or trade secret confers market power upon its owner.").

abolition of the presumption will increase the cost and complexity of the plaintiff's affirmative case, the magnitude of the increase should not be unduly burdensome, particularly in view of the fact that a successful plaintiff still may recover treble damages. In cases where a patentee's tying activities constitute anticompetitive forcing, a plaintiff should not find it arduous to uncover the requisite evidence of market power.

Moreover, abolition of the presumption will significantly reduce the exposure that unfairly burdens Section 1 defendants. Currently, the market power presumption creates significant exposure to nuisance suits for patentees that may wish to engage in tying arrangements for reasons that are not anticompetitive.[27] Being forced to rebut a presumption of market power that is not reflective of economic reality is akin to a baseball player stepping into the batter's box with one strike already registered against him. The player still may succeed in his aim—reaching base safely before two more strikes are recorded—but the risk of failing has been dramatically increased. In the case of most patentees in Section 1 cases, this increased risk of failure is unjustified.

Antitrust policy should reflect market considerations, lest it lack objective benchmarks.[28] Given the lack of evidence to

27. National Institute on Industrial and Intellectual Property—1984, "The Value of Patents and Other Legally Protected Commercial Rights," 53 Antitrust L.J. 535 (1985) (comments of Professor F.M. Scherer, professor of economics, Swarthmore College) (recognizing this possibility, and recommending, at a minimum, either the elimination of treble damages for patent tying cases or the abolition of the market power presumption, and preferably, both).

28. *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 53 n.21 (1977).

support the market power presumption, the burden of proving market power is more appropriately allocated to the plaintiff in a Section 1 tying case than the defendant.

CONCLUSION

HIPLA respectfully requests that this Court reverse the decision of the Federal Circuit, and abolish the market power presumption in Section 1 tying cases.

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IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS INC. *et al.*,
Petitioners,

v.

INDEPENDENT INK, INC.
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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BRIEF *AMICUS CURIAE* INTELLECTUAL PROPERTY OWNERS ASSOCIATION IN SUPPORT OF THE PETITIONERS

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BRIEF *AMICUS CURIAE* INTELLECTUAL PROPERTY OWNERS ASSOCIATION IN SUPPORT OF THE PETITIONERS

INTEREST OF *AMICUS CURIAE*[1]

Amicus Intellectual Property Owners Association (IPO) is a non-profit, national organization founded in 1972 to represent the owners of intellectual property in the United States. IPO's members currently include 120 large and mid-sized companies and over 250 small businesses, law firms, inven-

[1] The parties have consented to the filing of this brief *amicus curiae*. In accordance with Supreme Court Rule 37.2(a), the letters of consent are attached hereto. Pursuant to this Court's Rule 37.6, *amicus* represents that this brief was not authored in whole or in part by counsel for any party. Petitioners, both IPO members, made no monetary contribution to the preparation or submission of this brief beyond normal membership dues payments. No other person or entity made a monetary contribution other than IPO, its members, or its counsel.

tors, authors, executives, and attorneys who own or are interested in patents and other forms of intellectual property in any industry or field of technology. IPO members are granted about 30 percent of the patents issued by the U.S. Patent and Trademark Office to U.S. nationals. IPO regularly represents the interests of its members before Congress and the U.S. Patent and Trademark Office, and has filed *amicus curiae* briefs in this Court and other courts on significant issues of intellectual property law.

IPO expressly declines to take any position on whether there is a factual basis for finding Petitioners' claims to be invalid or unenforceable. IPO is concerned with the interests of all of its members in all industries and all fields of technology. IPO believes that while the Federal Circuit strictly applied decades-old Supreme Court precedent, the market power presumption unfairly handicaps patent holders and is in tension with modern economic theory. The Federal Circuit's *Independent Ink* opinion, if not vacated or modified by the Court, will adversely affect legitimate business and creative uses of patent rights of a large number of IPO members.

In this brief, IPO explains how the Federal Circuit's *Independent Ink* decision could affect the outcome of this and future cases. IPO believes its brief will be helpful to the Court in considering Petitioners' brief on the merits. The filing of this brief was approved by at least a three-fourths majority of the IPO Board of Directors, the members of which are listed in the accompanying Appendix.

INTRODUCTION

The United States Court of Appeals for the Federal Circuit reversed the summary judgment that had been granted in favor of Petitioners, Illinois Tools Works, Inc. ("ITW"), and Trident, Inc. ("Trident"), under a Sherman Act Section 1

(15 U.S.C. § 1) theory brought in a tying case in the district court involving Trident and ITW's U.S. Patent No. 5,343,226 ("the '226 patent"). The Federal Circuit panel relied on the holdings in *International Salt Co. v. United States*, 332 U.S. 392 (1947) and *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), and held that patent and copyright tying, unlike other tying cases, does not require plaintiffs to show market power in the tying product. Instead, "*International Salt* and *Loew's* make clear that the necessary market power to establish a section 1 violation is presumed."[2] The Federal Circuit rejected ITW and Trident's claim that *International Salt* and *Loew's* were no longer good law. The Federal Circuit concluded that, despite the perceived inadequacies of the two cases, it still "remains the '[Supreme] Court's prerogative alone to overrule one of its precedents.'" *Indep. Ink, Inc., v. Ill. Tool Works, Inc.*, 396 F.3d 1342, 1351 (Fed. Cir.), *petition for cert. filed*, 73 U.S.L.W. 3604 (U.S. Apr. 4, 2005) (No. 04-1329) (quoting *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997)).

Our members firmly believe that the more than a half-century-old decisions of *International Salt* and *Loew's* should at long last be overruled.

SUMMARY OF ARGUMENT

The burden of proving market power should be placed and remain on the antitrust plaintiff in a patent tying case, as it is in all other tying cases. There should be no presumption that because the tying product is patented, it somehow inherently defines the relevant market and mandates a finding of market power.

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[2] *Indep. Ink, Inc. v. Ill. Tool Works, Inc.*, 396 F.3d 1342, 1348-49 (Fed. Cir.), *petition for cert. filed*, 73 U.S.L.W. 3604 (U.S. Apr. 4, 2005) (No. 04-1329).

There are compelling reasons for now reconsidering the market power presumption in tying cases involving a patent. Such presumption is squarely at odds with the Court's contemporary approach as to how an antitrust plaintiff must prove market power in *non*-patent tying cases. The Federal Trade Commission and the Department of Justice, two federal antitrust enforcement agencies principally responsible for enforcing the nation's antitrust laws, have repeatedly rejected the application of the presumption of market power theory in patent tying cases. Several circuit courts and notable antitrust commentators have brought the presumption into question as an unfair burden imposed upon patent and copyright owners that does not extend to other types of antitrust defendants involved in a tying case. The *Independent Ink* case clearly presents the opportunity for the Court to harmonize patent tying cases with modern economic theory. The Court should overturn the precedent of *International Salt* and *Loew's* and resolve this important question of antitrust law.

ARGUMENT

I. THERE SHOULD BE NO PRESUMPTION THAT A PATENT DEFINES AND CONFERS MARKET POWER IN A RELEVANT MARKET ON A TYING PRODUCT UNDER SECTION 1 OF THE SHERMAN ACT

The Federal Circuit stated that it was compelled to follow this Court's precedent that a rebuttable presumption of market power arises from the mere possession of a patent on the tying product sufficient to establish a *prima facie* Sherman Act Section 1 claim.[3] This Court established such precedent

[3] Tying arrangements violate Section 1 of the Sherman Act "if the seller has 'appreciable economic power' in the tying product market and if the arrangement affects a substantial volume of commerce in the tied market.'" *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 462 (1992) (citation omitted).

more than fifty years ago in *International Salt Co. v. United States*, 332 U.S. 392 (1947) and *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948), and reaffirmed in *United States v. Loew's Inc.*, 371 U.S. 38 (1962), holding that a presumption of market power exists in a tying case when the tying product is patented or copyrighted. That precedent should be overturned, as it is contrary to modern economic theory involving tying. Instead, just as in any other tying case, the burden of proof should rest squarely on the shoulders of the antitrust plaintiff to establish market power in the patented tying product.

A. The Burden Of Proving Market Power Should Remain On The Antitrust Plaintiff In A Patent Tying Case Without The Benefit Of A Market Power Presumption

Meeting the standards for patentability does not equate with meeting the definition of economic power necessary to support anticompetitive behavior in a relevant market. This Court recognized long ago that there is nothing inherently anticompetitive about patent ownership. *Mazer v. Stein*, 347 U.S. 201, 219 (1954) ("The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and useful Arts.'"). Moreover, this Court has observed that "'A patent by its very nature is affected with a public interest. . . . (It) is an exception to the general rule against monopolies and to the right to access to a free and open market. '" *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971) (quoting *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945)). Many lower courts, when faced with a tying case, have

concluded that a patent on the tying product does not alone confer market power.[4]

Patent rights are derived from the Constitution,[5] and as interpreted by Congress, a patent grants inventors "'the right

[4] *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325-26 (Fed. Cir. 2000) ("A patent alone does not demonstrate market power."); *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 872 (Fed. Cir. 1997) ("Violation of the antitrust laws always requires . . . market power in a defined relevant market (which may be broader than that defined by the patent . . . ."); *Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990) ("[T]he aims and objectives of patent and antitrust laws may seem, at first glance, wholly at odds. However, the two bodies of law are actually complementary, as both are aimed at encouraging innovation, industry and competition." (Citation omitted.)); *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665, 673 n.4 (7th Cir. 1985) (Easterbrook, J.); *Am. Hoist & Derrick Co. v. Sowa & Sons., Inc.*, 725 F.2d 1350, 1367 (Fed. Cir. 1984) ("patent rights are not *legal monoplies* in the antitrust sense of that word"); *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 511 (7th Cir. 1982) (Posner, J.) ("[O]f course, not every patent confers market power . . . ."); *Schlafly v. Pub. Key Partners*, No. 94-20512 SW, 1997 WL 564073, at *4 (N.D. Cal. Aug. 29, 1997) ("A patent does not of itself establish a presumption of market power in the antitrust sense.") (citations and internal quotation marks omitted), *aff'd*, 155 F.3d 565 (Table), 1998 WL 205766, at *7 (Fed. Cir. 1998) ("Mere possession of a patent, or a family of patents, does not establish a presumption of antitrust market power."); *F.B. Leopold Co., v. Roberts Filter Mfg. Co.*, 882 F. Supp. 433, 454 (W.D. Pa. 1995) (patent on porous plate, the tying product, insufficient to establish market power), *aff'd*, 119 F.3d 15 (Fed. Cir. 1997); *Chiuminatta Concrete Concepts, Inc. v. Target Prods., Inc.*, No. CV 92-1523 LGB (SX), 1992 WL 465720, at *4 (C.D. Cal. Dec. 2, 1992) (patent on certain skid plates, the tying products, insufficient to establish market power in tying claim), *aff'd*, 19 F.3d 41 (Fed. Cir. 1994).

[5] "The [U.S.] Constitution empowers Congress '[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.' [U.S. Const.] art. I, § 8, cl. 8. Congress first exercised this authority in 1790, when it provided for the issuance of 'letters patent,' Act of Apr. 10, 1790, ch. 7, § 1, 1 Stat. 109." *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 373 (1996).

to exclude others from making, using, offering for sale, selling, or importing the patented invention,' in exchange for full disclosure of an invention." *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 372 (1996) (quoting H. Schwartz, *Patent Law and Practice* 1, 33 (2d ed. 1995)). The grant of a U.S. patent conveys a unique form of property, with the rights to exclude others from using the invention if certain criteria are met, as "'patents are not given as favors . . . but are meant to encourage invention by rewarding the inventor with the right, limited to a term of years fixed by the patent, to exclude others from the use of his invention.'" *Eldred v. Ashcroft*, 537 U.S. 186, 215-16 (2003) (quoting *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229 (1964)). In essence, a patent is merely a time-limited opportunity to attempt to capture a return on an investment of time and capital. Owning a patent does not guarantee that the patentee will ever earn anything from the bundle of rights granted by Act of Congress. The gamble that the inventor invariably is compelled to take once she submits an application to the Patent Office is that the industry may not be mature enough to appreciate the commercial aspects of the invention during the patent's enforceable period. Indeed, there is no guarantee that a patentee will ever be able to practice his or her invention as other patents owned by competitors on an underlying invention frequently act as a legal roadblock. The marketplace's inability to recognize or calculate the value of an invention is one of the hazards of a limited patent term. *See* Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399, 445 (2003).

The grant of a patent has been construed by some to be akin to a statutory monopoly, just as the granting of patents in England was an explicit exception to the statute of James I prohibiting monopolies. *See Sears*, 376 U.S. at 229-30 (citing *The Case of Monopolies* (*Darcy v. Allein*), 77 Eng. Rep. 1260 (K.B. 1602)). But the standards for patentability

should not somehow be misconstrued to equate with the standards of economic power necessary to support a determination of anticompetitive behavior for antitrust purposes in a relevant market.[6] At a minimum, before a patent is granted, the claimed subject matter only "must be useful, novel, and not obvious." *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 736 (2002) (citing 35 U.S.C. §§ 101-103 (1994 & Supp. V)). Moreover, "the patent application must describe, enable, and set forth the best mode of carrying out the invention." *Id.* (citing 35 U.S.C. § 112 (1994)). It is only these substantive threshold requirements that have to be satisfied before issuance of a patent can occur, for exclusive patent rights are granted in exchange for disclosing the invention to the public. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989) ("The Patent Clause itself reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the 'Progress of Science and useful Arts.'"); *J.E.M. AG Supply, Inc. v. Pioneer Hi-Bred Int'l, Inc.*, 534 U.S. 124, 142 (2001) ("The disclosure required by the Patent Act is 'the *quid pro quo* of the right to exclude.'" (quoting *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 484 (1974)); *Brenner v. Manson*, 383 U.S. 519, 534 (1966) ("The basic *quid pro quo* . . . for granting a patent monopoly is the benefit derived by the public from an invention with substantial utility."); *Graver Tank & Mfg. Co. v. Linde Air Prods. Co.*, 339 U.S. 605, 607 (1950) (the disclosure of inventions, "is one of the primary purposes of the patent system").

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[6] William Montgomery, *The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements*, Note, 85 Colum. L. Rev. 1140, 1149 (1985) ("[T]he existence of a patent or copyright provides little, if any, evidence of supernormal profits, barriers to entry, consumer preferences, or absence of adequate substitutes. It thus does not dispose of the question whether a product has market power.").

The Court's precedent should be overturned so that the law will be clear that a patent, without more, is merely a grant of a property right to exclude others for limited times from making, using, selling, offering to sell, or importing into the United States the invention claimed in the patent. A patent cannot serve to define a market, much less provide actual evidence of market power. The Court should act to harmonize the law for matters involving patent tying cases with those of non-patent tying cases, which are only unlawful if the antitrust defendant has demonstrable market power in the relevant market for the tying product. *United States Steel Corp. v. Fortner Enters., Inc.*, 429 U.S. 610, 620 (1977) ("*Fortner II*").[7] In tying cases not involving intellectual property, this Court has consistently held that there must be proof of "forcing" or market power resulting in an "actual adverse effect on competition" in the relevant market by the tying arrangement and also has recognized that patents and copyrights are not synonymous with "market power." *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 29-31, 37 n.7 (1984).[8]

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[7] Determining market power requires making an inquiry into "whether the seller has the power, within the market for the tying product, to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market." *Fortner II*, 429 U.S. at 620. The requirement of demonstrating sufficient market power to raise prices was notably more onerous than the *Northern Pacific* requirement that there be some power to "appreciably restrain free competition." *Fortner II*, 429 U.S. at 620 (citing *N. Pac. R. Co. v. United States*, 356 U.S. 1 (1958)).

[8] In *Jefferson Parish*, 466 U.S. at 37 n.7, Justice O'Connor wrote in concurrence:

> A common misconception has been that a patent or copyright, a high market share, or a unique product that competitors are not able to offer suffices to demonstrate market power. While each of these three factors might help to give market power to a seller, it is also possible that a seller in these situations will have no market power:

The need to eliminate the presumption of market power can readily be shown by way of example. For instance, if an owner of an entire multi-unit condominium complex in a typical city required each buyer to dine in a mezzanine level restaurant in that building three times per week as a condition of purchasing a condominium unit, there should be no presumption that the multi-unit complex owner somehow has market power in the relevant tying condo market in that city sufficient to "force" buyers to purchase their meals in the mezzanine restaurant, i.e., the tied product. These potential buyers can purchase a condominium unit from a different owner and dine elsewhere as they see fit. Market power would have to be proven by the antitrust plaintiff, not presumed, as no intellectual property is involved, and it is unlikely to exist in a city where much cross-elasticity of demand exists due to the existence of many other condominium complexes competing for a share of the potential buyer market.

The argument is no different if the property at issue is intellectual and not tangible. The same principle should be applied to patent tying cases, where market power should not be presumed in the patented tying product just because a patent application met the minimum standards for novelty, usefulness, and non-obviousness. These patentability criteria have no necessary relationships to the economic factors that define markets and establish the existence of market power.

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for example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product.

B. There Is No Rational Economic Basis For A Presumption Of Market Power Because Patents Do Not Inherently Define A Relevant Market

As numerous commentators have long recognized, the mere ownership of a patent does not confer market power to the patent owner sufficient to satisfy the stringent requirements of a Sherman Act Section 1 tying case. The premises underlying the presumption are invalid. Before one can have market power, one must first define the market. Patent claims define an invention, not a market. The presumption is tenuously based on the basic right of a patent owner to exclude others from practicing his or her invention without permission. If one assumes that patent claims define a market, then this right to exclude does not confer market power on the patent owner for the simple reason that there may be, and often are, close non-infringing substitutes for the patented invention. Thus, the existence of non-infringing substitutes precludes the owner from exercising market power.

Indeed, the majority of patents lack any real semblance of commercial value; to the extent that patents have inherent value, they invariably face robust competition in the marketplace. For example, a company that has a 1% share of the personal computer market hardly has market power in that market merely because the company owns a patent that relates to one component of the computer. However, it is economically rational for the company to only sell the component inside of its own brand of computers. The recognition that a patent, without more, does not confer market power was recognized by Justice O'Connor in her concurring opinion in *Jefferson Parish* that "a patent holder has no market power in any relevant sense if there are close substitutes for the patented product." *Jefferson Parish* , 466 U.S. at 37 n.7.

Prominent antitrust scholars have also long expressed serious doubts about the alleged anticompetitive effects of tying. Phillip E. Areeda, Einer Elhauge & Herbert Hovenkamp, *Antitrust Law* ¶ 1737c, at 82 (2d ed. 2004) ("If *Salt* really required power and inferred it from any patent, it erred. By contrast, if *Salt* was essentially indifferent to power over the tying product, it has been overruled by the legal rule adopted in *Fortner II* [*United States Steel Corp. v. Fortner Enters.*, 429 U.S. 610 (1977)] and *Jefferson Parish*."); Phillip Areeda & Donald F. Turner, *Antitrust Law* ¶ 1134b, at 205 (1980) (tying may simply be used as an efficient method of effecting lawful price discrimination, as a means of preserving consumer confidence in the performance of a complex product, or, in the case of servicing tied to distribution of a complex product, an efficient mode of generating information leading to product improvement."); Robert H. Bork, *The Antitrust Paradox* 365, 372-75 (1978) ("The Supreme Court has seen in this tying together of transactions nothing but the suppression of competition. . . . [I]t is safe to say that suppression of competition is the one function not accomplished by the arrangements the Court has struck down."); Richard A. Posner, *Antitrust Law* 197-207 (2d ed. 2001) ("[t]he frequency with which patents have been involved in tying cases may stem from the fact that the earliest such cases were not antitrust cases at all. They were patent-misuse cases, where the issue was whether the patentee had improperly extended the patent monopoly by monopolizing an unpatented product tied to the patented product.") (citing *Motion Picture Patents Co. v. Universal Films Mfg. Co.*, 243 U.S. 502 (1917)); Herbert Hovenkamp, *Federal Antitrust Policy* § 10.3 (2d ed. 1999) ("Most patents confer absolutely no market power on their owners. . . . [The] economic case for 'presuming' sufficient market power . . . simply because the tying product is patented . . . is very weak.")

C. The Market Power Presumption Deters Conduct By Patent Owners That Benefits Consumers

Historically, it has long been considered to be unprofitable and inefficient to bundle together large numbers of unrelated goods. However, some recent scholars have posited that tying actually increases the availability of goods, especially with respect to digital information goods. Yannis Bakos & Erik Brynjolfsson, *Bundling Information Goods: Pricing, Profits and Efficiency*, Management Science (Dec. 1999) ("*Bundling Information Goods*"); Yannis Bakos & Erik Brynjolfsson, *Bundling and Competition On The Internet*, Marketing Science (Jan. 2000).

Bundling very large numbers of unrelated information goods can be quite profitable. The reason is that economies of scale make it much easier to predict consumers' valuations for a bundle of goods than their valuations for the individual goods when sold separately. A "predictive value of bundling" makes it possible to achieve greater sales, greater economic efficiency and greater profits per good from a bundle of information goods than can be attained when the same goods are sold separately. *See Bundling Information Goods* at 2-3.

Moreover, circuit courts since *Jefferson Parish* was decided have likewise held or suggested that the mere ownership of a patent, *viz.*, a "legal monopoly," does not equate to market power sufficient to support a per se rule against tie-ins involving patents. *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673, 676-77 & n.3 (6th Cir. 1986) ("*Loew's* [was] overbroad and . . . we reject any absolute presumption of market power for copyright or patented product . . . . [S]uch a presumption is not warranted merely by existence of a copyright or patent."); *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505 (7th Cir. 1982) (suggesting *in dicta* that proof of

market power may be required in patent and copyright tie-ins); *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665 (7th Cir. 1985).

D. The Market Power Presumption Facilitates The Assertion Of Baseless Antitrust Counterclaims By Infringers

The cost of defending baseless antitrust claims deters patent owners from properly enforcing their patents against infringers. A clear harmful effect in the practical application of the presumption is that it facilitates patent infringement defendants to bring Sherman Act counterclaims against patentees. The presumption shifts the burden onto the patentee to rebut a presumed market power element and raises the potential that meritless or weak antitrust claims will survive motions to dismiss and summary judgment. The presumption increases the risk to the public that a potentially invalid patent will not be judicially examined or patent claim terms not be construed, as the risk of incurring statutorily mandated treble damages for Sherman Act liability forces settlement of the underlying patent action and antitrust counterclaims to avoid the expense, and treble damages risk, of an extended antitrust trial. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 593 (1986) (citation omitted) (The "effect" of implausible inferences to require a jury trial "is often to deter procompetitive conduct.").

E. The Department Of Justice And Federal Trade Commission Do Not Apply A Presumption Of Market Power When Evaluating A Tying Case Involving A Patent On The Tying Product

Compelling support for IPO's argument that it is time to eliminate the market power presumption is provided by the policies promulgated by the two agencies of the executive branch empowered with enforcing the federal antitrust laws,

viz., the Department of Justice and Federal Trade Commission ("the Agencies"). The Agencies have squarely rejected the notion that merely having a patent on the tying product somehow confers a *prima facie* presumption of market power.[9] Instead, the Agencies have elected to closely follow the guidance provided by Justice O'Connor's concurrence in *Jefferson Parish*, and require an antitrust plaintiff *to prove* market power. The Guidelines expressly state they are based on three underlying principles: "(a) for the purpose of antitrust analysis, the Agencies regard intellectual property as being essentially comparable to any other form of property; (b) *the Agencies do not presume that intellectual property creates market power in the antitrust context*; and (c) the Agencies recognize that intellectual property licensing allows firms to combine complementary factors of production and is generally procompetitive." U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* § 2 (1995).[10] (emphasis added).

The Court should carefully weigh that both federal agencies have repeatedly made clear that patent tying arrangements frequently result in significant enhancement of efficiencies and pro-competitive benefits.[11] The fact that

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[9] U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* § 5.3 (1995) (the "Guidelines").

[10] The pro-competitive effects of patenting were also recently discussed by the Agencies after a series of public hearings set forth in the recent Report by the Federal Trade Commission "To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy" Chap. 6 (Oct. 2003).

[11] The Agencies' joint policy is that they "[w]ill not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner." Guidelines § 5.3; R. Hewitt Pate, Acting Assistant Attorney General, *Antitrust and Intellectual Property*, Address before the American Intellectual Property Law Association. (Jan. 24, 2003), *available at* http://www.doj.gov/atr/public/speeches/200701.pdf ("Because patents do not necessarily confer market power, there is no presumption that tying

agencies decline as part of their prosecutorial discretion to "presume" market power when evaluating a patent tying case lends strong support that it is the appropriate time to overturn the market power presumption originating under the *International Salt* doctrine, decided in the economic climate that followed in on the heels of the Great Depression and the Second World War in the first half of the last century, and in which patent rights were viewed through a distorted lens.[12]

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arrangements involving patented products necessarily are illegal.") (citing Guidelines § 5.3); Makan Delrahim, Deputy Assistant Attorney General, *Contemporary Issues at the Intersection of Intellectual Property and Antitrust*, Remarks made before the Fair Competition & Market Economy 2004 Shanghai International Forum, Shanghai, China, (Nov. 10, 2004), *available at* http://www.doj.gov/atr/public/speeches/206607.pdf (the DOJ recognizes that "[c]lose substitutes in the marketplace may foreclose the [patented product] from realizing any meaningful return.") (citing Guidelines §§ 2.1-2.2).

[12] Indeed, the general attitude towards patents during late 1940s when *International Salt* was decided may be fairly characterized as antagonistic, glimpsed where Mr. Justice Jackson (in dissent) spoke of the "strong passion in this Court for striking them [patents] down so that the only patent that is valid is one which this Court has not been able to get its hands on." *Jungersen v. Ostby & Barton Co.*, 335 U.S. 560, 572 (1949). Note that the Court had the same complement of Justices when it decided *Jungersen* as it did when it decided *International Salt* several years earlier.

CONCLUSION

The precedent under *International Salt* and *Lowe's* providing for a presumption of market power in a Sherman Act Section 1 patent tying case should be overturned.

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IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS, INC., *et al.*,

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF *AMICI CURIAE* OF INTERNATIONAL IMAGING TECHNOLOGY COUNCIL AND REMANUFACTURING INDUSTRIES COUNCIL IN SUPPORT OF RESPONDENT

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INTEREST OF THE *AMICI*[1]

Printer cartridges are remanufactured when worn or exhausted parts are restored or replaced; and the final product performs like the original one. International Imaging Technology Council represents the 5,000 companies in the industry that make their living remanufacturing imaging supplies. Toner and ink jet cartridge remanufacturing grew as a trade and now represents a $4.5 billion industry. A survey of remanufacturing companies found that there are over 73,000 independent remanufacturing companies in the U.S. These companies employ nearly 500,000 people and have annual sales of over $53 billion per year. This case is vital to the interests of that industry, as its outcome will determine whether the industry will continue to thrive or will be decimated.

International Imaging Technology Council represents those businesses as a § 501(c)(6) trade organization with members around the world. International Imaging Technology Council seeks to promote the benefits of using remanufactured cartridges and defends these small businesses from unfair trade practices often employed by large corporations to eliminate aftermarket competitors.

The Remanufacturing Industries Council (RIC) is a coalition of individual companies, trade associations, government and academic organizations working to promote, protect and advance the entire remanufacturing industry.

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1. I hereby certify that this brief has been financed entirely by the International Imaging Technology Council and has been written solely by its executive director, in compliance with Rule 37.6. The parties have consented to the filing of this brief and their letters of consent are being lodged herewith.

International Imaging Technology Council seeks to promote the benefits of using remanufactured cartridges and to defend these small businesses from unfair trade practices often employed by large corporations who tried to stop aftermarket competitors.

If the Court decides to alter existing patent or antitrust laws, the printer original equipment manufacturers (OEMs), including but not limited to Hewlett-Packard, Canon, Lexmark International and Epson, could thwart all aftermarket competition. This could lead to the end of all aftermarket cartridge remanufacturing, and the end to any inexpensive alternatives for high-priced imaging supplies for consumers. The reach of such a decision could also extend into other aftermarkets, such as those for automotive parts.

ARGUMENT

I. Presumption of Market Power in Patented Tying Products is Consistent with the Experience of the Cartridge Remanufacturing Industry

The right to repair an item with a remaining useful life is well settled, *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 365 U.S. 336 (1961). That right has been extended to printer cartridges in cases like *Hewlett-Packard Co. v. Repeat-O-Type Stencil*, 123 F. 3d 1445 (Fed. Cir. 1997).

Trident sells its patented printheads and unpatented ink for use with its print heads for use in industrial carton code printers. As a condition of sale, it requires that the buyer agree to purchase all the ink for use with the print head. This is a classic requirements tie, and if allowed by the Court, will certainly set a blueprint that will have dire repercussions

for users of printers of many types. The printer OEMs will almost certainly begin tying supplies to printers, leaving the aftermarket suppliers in the no-win situation of being forced out of business or bringing a lawsuit against the printer OEMs, which have far more resources to defend such an action.

The market power in Trident's patented print head is apparent from high prices it charges for required ink supplies. In the face of these high prices, if users of Trident's printer heads could switch to another type of printer, they would do so. However, because Trident's printer technology is patented, no alternative is available. Instead, customers continue using Trident's technology but look to the aftermarket ink suppliers to provide quality product with a competitive price for the unpatented supplies.

The computer printer marketplace is comprised of approximately a dozen large companies that produce ink- or toner-based printing products. Every printer OEM holds thousands of patents.

For computer printer manufacturers, the market power they possess is demonstrated by the extraordinary lengths they will go to prevent competition for supra-competitively priced aftermarket ink cartridges. These companies employ various devious methods to try to coerce the customer into buying only their imaging supplies. For example, Hewlett Packard changed the design of ink jet cartridges from top fill to bottom fill in order to thwart aftermarket competition (*See Hewlett-Packard v. Nu-Kote International*, 1998 U.S. App. Lexis 12744 (Fed. Cir. 1998).

Lexmark International, a multi-billion dollar company, uses a shrink wrap licensing agreement and chip technology to control its supplies channel and confuse customers. It first announced its *Pre*bate cartridge program for Optra S printers in 1997. Consumers were purportedly offered an up-front discount of $30 or more if they agreed not to reuse, recycle or remanufacture the cartridge, and to either return it to Lexmark or throw it away. The offer came using a shrink-wrap licensing restriction that the customer ostensibly agrees to buy the cartridge at the discounted price. Lexmark also sent out letters to all remanufacturers saying that it would sue any company that violated these restrictions by remanufacturing a *Pre*bate cartridge.

It claimed that this "marketing program" was not anti-competitive because "remanufacturable" cartridges were readily available for purchase at the higher price. However, remanufacturable cartridges started to quickly disappear as a choice for customers as retailers chose not to carry the higher-priced model.

Lexmark added chip technology to its printers in late 1997 to enforce the "*Pre*bate" restrictions. Some chips used to monitor supply usage in Lexmark T series printers actually shuts off the printer when it detects that a remanufactured printer cartridge is in use. Dubbed the "killer chip," it also displays the error message, "invalid refill," on the printer to further confuse the customer into believing that he did something wrong by buying a remanufactured cartridge.

A leading aftermarket industry vendor, Static Control Components, responded by inventing a replacement chip that worked in "*Pre*bate" cartridges. Lexmark sued Static Control Components, claiming that its replacement chip violated

U.S. Copyright laws and the Digital Millennium Copyright Act (*Lexmark International v. Static Control Components, Inc., et al.*, United States District Court, Eastern District of Kentucky, Civil Action No. 02-571-KSF). After the District Court granted a preliminary injunction in Lexmark's favor to halt the sale of the aftermarket chips, Static Control appealed to the Sixth Circuit Court. That Court reversed the injunction and found that Lexmark's use of the DMCA was inappropriate. In a concurring opinion, the court questioned Lexmark's tactics and found them to be monopolistic. *Lexmark International, Inc. v. Static Control Components, Inc.*, 387 F.3d 522 (6th Cir. 2004).

Lexmark responded by filing more legal actions against remanufacturers using Static Control Components' and others' chip technology. These lawsuits are a tremendous burden to the participants, who are much smaller companies than Lexmark International. However, Lexmark appears determined to drive out all competition and secure total control of its lucrative supplies market.

These and other printer OEMs have gone to great lengths and great expense to attempt to tie the sales of their supplies to the sale of their printers. If the presumption that a patent holder has monopoly power is abrogated, these companies will undoubtedly begin overtly tying their supplies to printer sales.

The presumption is vital to protecting remanufacturers' rights to compete in this industry. Without the presumption, litigation against the much larger OEMs would become extremely expensive, well beyond the resources available to the vast majority of our industry members.

The vast majority of our members has fewer than five employees and has less than $1 million in sales. The consumer printer OEMs all have annual sales figures in the billions. This disparity also exists in the current case, as Illinois Tool Works is an $11 billion company, where Independent Ink does only about $5 million in business each year. In that separate market for industrial carton coding printers, Illinois Tool Works is the dominant player.

II. Remanufactured Cartridges Foster Competition by Reducing Prices and Eliminating Wasteful Use of Resources

Remanufactured cartridges are also good for consumers. As the only alternative to new cartridges, remanufactured printer cartridges keep manufacturers from holding a monopoly on the supplies for their printers. Without an aftermarket with which to compete, the OEMs will own a monopoly on the printer supplies marketplace and the prices of printer cartridges would soar. Protecting consumers against supra-competitive prices is the number one goal of antitrust laws.

Cartridge remanufacturers are service-driven, locally-based small businesses and therefore are good for the economy. Cartridge remanufacturing is a technical craft that is not easily automated and is labor intensive, so these companies employ more workers, pay more taxes and create more economic multiplier effects than out-of-state or other-country corporations. Many empty cartridge collection programs work with charities so that empties are delivered to remanufacturers in exchange for money that goes to buy community-supporting products, such as band uniforms, sports equipment for Boys & Girls Clubs and other goods and services for the community.

Remanufacturing promotes competition and is good for the environment. The industry reuses existing plastic and metals, diverting them from the waste stream. Remanufacturing is the highest form of recycling, as it affords reuse. Toner cartridges are comprised of industrial grade, thermo-set plastic that will only begin to degrade in a thousand years. As an environmental strategy, the benefits of remanufacturing exceed the benefits of recycling a product. While recycling reclaims the original materials used to create a component, remanufacturing also reclaims the *form* of the component. Thus the environmental and economic costs incurred in making that component are avoided. The pollution caused by raw material extraction and the pollution associated with converting those materials to their final form are avoided. The energy use, material waste, and labor associated with creating a new product are prevented. Remanufacturing helps reduce the amount of solid waste entering the landfill systems, preventing pollution and reducing the environmental and economic burdens of end-of-life products. By designing their products for remanufacture, manufacturers act to take on the environmental stewardship of their products.

These resources are being wasted by throwing away cartridges that could easily be reused several times. The manipulation of the cartridge marketplace by the OEMs fosters this inefficient use of resources.

Printer OEMs have adopted a razor-and-blade approach in marketing printers and printer supplies. They sell printers for low or no margins in order to sell the far more lucrative supplies. According to *BusinessWeek* magazine, Hewlett Packard's gross margins on imaging supplies are over 50 percent. And Hewlett-Packard's imaging supplies division contributed 125 percent to Hewlett-Packard's total net income.

Industry experts believe that approximately 100,000,000 printer cartridges are sold every year. And aftermarket cartridge dealers remanufacture up to 30 percent of those that are sold in North America. Those cartridges that are thrown away are destined for landfills, despite a potentially long, useful life. Some OEMs, such as Xerox, offer remanufactured cartridges, but all of them prefer to sell new cartridges for the reasons stated heretofore.

CONCLUSION

The current state of the law permits the cartridge remanufacturing industry to continue to compete and provide price relief to consumers. Remanufacturing is a noble profession with a long and recognized legal history grounded in the intellectual property doctrine of permissible repair. If Trident is permitted to condition its hardware sales by obliging the purchaser to buy its ink, manufacturers in the printer market will certainly and swiftly do the same thing. The loss of the presumption of market power could greatly increase litigation risks and costs for the small businesses that provide this vital competition in the ink business.

We ask that the Court enter relief as prayed for by Independent Ink, Inc.

Respectfully submitted,

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ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.,

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

On Writ Of Certiorari
To The United States Court Of Appeals
For The Federal Circuit

MOTION FOR LEAVE TO FILE *AMICI CURIAE* BRIEF AND BRIEF FOR THE MOTION PICTURE ASS'N OF AMERICA, INC., THE ASS'N OF AMERICAN PUBLISHERS, THE AMERICAN SOCIETY OF MEDIA PHOTOGRAPHERS, INC., THE BUSINESS SOFTWARE ALLIANCE, THE ENTERTAINMENT SOFTWARE ASS'N, THE INDEPENDENT FILM & TELEVISION ALLIANCE, THE NATIONAL FOOTBALL LEAGUE, AND THE RECORDING INDUSTRY ASS'N OF AMERICA, INC. AS AMICI CURIAE SUPPORTING REVERSAL

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MOTION FOR LEAVE TO FILE *AMICI CURIAE* BRIEF

Pursuant to this Court's Rule 37.3, the Motion Picture Association of America, Inc., the Association of American Publishers, the American Society of Media Photographers, Inc., the Business Software Alliance, the Entertainment Software Association, the Independent Film & Television Alliance, the National Football League, and the Recording Industry Association of America, Inc. (collectively, "*Amici*") hereby respectfully move for leave to file the attached *amici curiae* brief supporting reversal of the Federal Circuit's judgment in this case. The consent of counsel of record for the petitioner has been obtained. The consent of counsel of record for the ~~petitioner~~ RESPONDENT was requested but no response has yet been received.

The interest of *Amici* in this case arises from their ownership of a significant number of copyrights, patents, and other forms of intellectual property. *Amici* are in a position to provide the Court with a broader perspective as to the propriety, and the economic and other implications, of the ruling of the Federal Circuit below that "the Supreme Court cases in this area squarely establish that patent and copyright tying, unlike other tying cases, do not require an affirmative demonstration of market power. Rather, . . . the necessary market power to establish a section 1 violation is presumed." 396 F.3d 1342, 1348-49 (Fed. Cir. 2005).

QUESTION PRESENTED

Whether, in an action under Section 1 of the Sherman Act, 15 U.S.C. § 1, alleging that the defendant engaged in unlawful tying by conditioning a patent license on the licensee's purchase of a non-patented good, the plaintiff must prove as part of its affirmative case that the defendant possessed market power in the relevant market for the tying product, or market power instead is presumed based solely on the existence of the patent on the tying product.

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BRIEF FOR THE MOTION PICTURE ASSOCIATION OF AMERICA, INC., THE ASSOCIATION OF AMERICAN PUBLISHERS, THE AMERICAN SOCIETY OF MEDIA PHOTOGRAPHERS, INC., THE BUSINESS SOFTWARE ALLIANCE, THE ENTERTAINMENT SOFTWARE ASSOCIATION, THE INDEPENDENT FILM & TELEVISION ALLIANCE, THE NATIONAL FOOTBALL LEAGUE, AND THE RECORDING INDUSTRY ASSOCIATION OF AMERICA, INC.

INTEREST OF AMICI CURIAE[1]

The Motion Picture Association of America, Inc. ("MPAA") is a not-for-profit trade association founded in 1922 to address issues of concern to the United States motion picture industry. The MPAA's members produce and distribute copyrighted entertainment for theatrical, television and home video/DVD viewing, and own many patents related to methods utilized in creating or delivering such products.

The Association of American Publishers ("AAP") is the principal trade association for the U.S. book publishing industry with over 300 members, comprising most of the major commercial book publishers in the United States, as well as smaller and medium-sized houses, non-profit publishers, university presses and scholarly societies. The

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[1] Pursuant to this Court's Rule 37.6, *amici* states that this brief was not authored in whole or in part by counsel for any party, and that no person or entity other than *amici* and their counsel made a monetary contribution to the preparation or submission of this brief.

AAP's members and affiliates own a substantial number of copyrights.

The American Society of Media Photographers, Inc. (ASMP) is a §501(c)(6) not-for-profit trade association. ASMP was established in 1944 and is the world's largest association whose primary mission is to protect and promote the interests of professional photographers who earn their livings by making copyrighted photographs intended for publication in the various media.

The Business Software Alliance is the foremost organization dedicated to promoting a safe and legal digital world. BSA is the voice of the world's commercial software industry and its hardware partners before governments and in the international marketplace. Its members represent one of the fastest growing industries in the world. BSA programs foster technology innovation through education and policy initiatives that promote copyright protection, cyber security, trade and e-commerce. BSA members include Adobe, Apple, Autodesk, Avid, Bentley Systems, Borland, Cadence Design Systems, Cisco Systems, CNC Software/Mastercam, Dell, Entrust, HP, IBM, Intel, Internet Security Systems, Macromedia, McAfee, Microsoft, PTC, RSA Security, SAP, SolidWorks, Sybase, Symantec, The MathWorks, UGS and VERITAS Software.

The Entertainment Software Association ("ESA") is the U.S. trade association dedicated to serving the business and public affairs needs of companies that publish copyrighted video games for game consoles, personal computers, handheld devices, and the Internet. The ESA works to protect the intellectual property interests of its members through, among other things, a worldwide anti-piracy program designed to combat piracy of entertainment software. ESA members collectively account for more than 90 percent of the $7 billion in entertainment software sales in the United States in 2003,

and billions more in export sales of American-made entertainment software.

The Independent Film & Television Alliance (IFTA) is the trade association representing over 150 independent producers and distributors of copyrighted motion pictures and television programming, as well as affiliated financial institutions that provide funding for independent production. IFTA is also the owner of the American Film Market, the largest commercial film market in the world.

The National Football League is an unincorporated association of thirty-two Member Clubs, each of which owns and operates a professional football team. The NFL is responsible for the production of and/or owns the copyright in various audio and video products that are marketed to the public.

The Recording Industry Association of America, Inc. ("RIAA") is a nonprofit trade group that represents the United States sound recording industry. Its mission is to foster a business and legal climate that supports and promotes its members' creative and financial vitality. RIAA members create, manufacture and/or distribute copyrighted sound recordings that are sold throughout the United States.

The interest of *Amici* in this case arises from their ownership of a significant number of copyrights, patents, and other forms of intellectual property ("IP"). *Amici*, as a diverse group of IP owners, are in a position to provide the Court with a broader perspective as to the propriety, and the economic and other implications, of the ruling of the Federal Circuit below that "the Supreme Court cases in this area squarely establish that patent and copyright tying, unlike other tying cases, do not require an affirmative demonstration of market power. Rather, . . . the necessary market power to establish a section 1 violation is presumed." 396 F.3d 1342, 1348-49 (Fed. Cir. 2005).

STATEMENT

Amici adopt the Statement of the Case presented by the Petitioner.

SUMMARY OF ARGUMENT

This Court should decline to presume that antitrust market power arises from the mere ownership of intellectual property rights, whether patents or copyrights. Although such a presumption was articulated in *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), the *Loew's* "presumption" is not grounded in this Court's earlier precedents or its modern market power jurisprudence. Moreover, the *Loew's* presumption clashes with this Court's teaching that antitrust presumptions should reflect market realities and sound economic reasoning. Accordingly, the Court should abandon the *Loew's* presumption for patents, and, as well, for copyrights and other intellectual property.

ARGUMENT

I. THIS COURT'S PRECEDENTS DO NOT SUPPORT PRESUMING THE EXISTENCE OF ANTITRUST MARKET POWER FROM PATENT OR COPYRIGHT OWNERSHIP

The Federal Circuit averred below that "the Supreme Court has held that there is a presumption of market power in patent tying cases, and we are obliged to follow the Supreme Court's direction," despite "heavy criticism" and although "[t]he time may have come to abandon the doctrine." 396 F.3d at 1348-51. A presumption of market power based upon mere patent (or copyright) ownership, however, does *not* "find support in [this Court's] prior cases." *Jefferson Parish Hospital Dist. No. 2 v. Hyde*, 466 U.S. 2, 37-38 (1984) (O'Connor, J., concurring in

judgment, with Burger, C.J., Powell, Rehnquist, J.J.) (citations omitted). This Court "has never adopted a general presumption that any kind of IP right, including patents, confers significant power." HERBERT HOVENKAMP, MARK D. JANIS & MARK A. LEMLEY, IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW § 4.2e1 (2005 Supp.). While declarations on this subject appear in a number of the Court's opinions, they spring from a narrow patent law doctrine, do not engage with antitrust concerns, and do not supply the pivot on which any of the Court's prior antitrust decisions has turned. As such, this Court is free to (and should) disapprove the market power presumption at issue here. *Cf. Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752, 759-61, 777 (1984) (rejecting intra-enterprise conspiracy doctrine; "The doctrine derives from declarations in several of this Court's opinions. In no case has the Court considered the merits of the . . . doctrine in depth. Indeed, the concept arose from a far narrower rule. Although the Court has expressed approval of the doctrine on a number of occasions, a finding of intra-enterprise conspiracy was in all but perhaps one instance unnecessary to the result.").

A. Although *Loew's* Speaks Of A "Presumption," No Settled Rule of Presuming Antitrust Market Power From Intellectual Property Ownership Emerges From Either That Case Or The Precedent On Which It Rests.

In *United States v. Loew's, Inc.*, 371 U.S. 38, 45 (1962), this Court stated that the "requisite economic power" in a tying case "is presumed when the tying product is patented or copyrighted." *Loew's* deemed this presumption to be an antitrust "principle" that "grew out of a long line of patent cases which had eventuated in the doctrine that a patentee who utilized tying arrangements would be denied all relief against infringements of his patent." *Id.* at 46. This *patent tying* doctrine, however, has no roots in *antitrust* law or

concepts; its teachings regarding the scope of the "limited monopoly"[2] granted under the Patent Act simply do not define the economic circumstances when patents bestow monopoly or market power for purposes of the Sherman and Clayton Acts. And what is true of patents here is overwhelmingly the case for copyrights, which confer even more limited rights. *See infra,* at Section II.B. Thus, if *Loew's* is correct that the patent tying doctrine was transformed into a "principle" of presuming market power generally from intellectual property ownership — *Loew's* implies that the transformation occurred in *International Salt*, 332 U.S. 392 (1947), and *Paramount Pictures*, 334 U.S. 131 (1948), *see* 371 U.S. at 44-46 — it was a presumption ungrounded in antitrust jurisprudence. It was also unnecessary to the result in *Loew's* itself and in most if not all of the Court's prior antitrust cases.

1. The earliest patent tying case cited in *Loew's, Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, 243 U.S. 502 (1917), was a patent-infringement suit in which the Court declined to find that plaintiff's patent on a film-projector machine had been infringed by defendants' refusal to use plaintiff's films, as required by the patent license agreement. *See id.* at 517-19. In recognizing this misuse defense to a claim of patent infringement, the Court had no occasion, nor did it purport, to rely on the antitrust laws. Rather, it simply defined the statutory scope of the patent grant, and reasoned that enforcing the license restriction at issue would allow the plaintiff, "under color of its patent, . . . to . . . derive its profit, not from *the invention on which the law gives it a monopoly* but from the unpatented supplies with which it

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[2] The Court's usage of the term "limited monopoly" to describe the rights conferred by a patent grant predates passage of the Sherman Act. *See Butterworth v. United States,* 112 U.S. 50, 58-59 (1884).

is used, and which are wholly without the scope of the *patent monopoly*." *Id.* at 517 (emphasis added).

Similarly, in *Carbice Corp. v. American Patents Development Corp.*, 283 U.S. 27 (1931), another patent tying decision cited in *Loew's*, the Court dealt with "the limited scope of the *patent monopoly*," *id.* at 31 (citation omitted), and held that a patent owner "may not exact as the condition of a license that unpatented materials used in connection with the invention shall be purchased only from the licensor; and if it does so, relief against one who supplies such unpatented materials will be denied." *Id.* In *Carbice*, as in *Motion Picture Patents*, the only question before the Court was whether a defense to a claim of patent infringement should be recognized — whether courts should "deny relief against those who disregard the limitations sought to be imposed by the patentee beyond the legitimate scope of its monopoly." *Id.* at 32-33 & n.3 (noting that "[t]he patent grant is inherently limited").[3]

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[3] The *Carbice* Court briefly stated that the "present attempt is analogous to the use of a patent as an instrument for restraining commerce which was condemned, under the Sherman Anti-Trust Law, in *Standard Sanitary Mfg. Co. v. United States,* 226 U.S. 20 [(1920)]." *Carbice*, 283 U.S. at 34. *Standard Sanitary,* however, was a case condemning a cartel organized through sham patent licensing, holding merely that "[t]he added element of the patent in the case at bar cannot confer immunity." 226 U.S. at 48-49. *Carbice* suggested (in a footnote) that "[i]n such cases, the attempt to use the patent unreasonably to restrain commerce is not only beyond the scope of the grant, but also a direct violation of the Anti-Trust Acts." 283 U.S. at 34 n.4. For support, the Court cited, *inter alia, United Shoe Mach. Co. v. United States,* 258 U.S. 451 (1922), a Clayton Act §3 case involving patent tying where the Court did *not* presume market power from patent ownership. *See infra,* at Section I.B.

The *Loew's* Court also relied on *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942), a decision that makes unmistakably clear the patent tying doctrine's lack of tethering to antitrust principles. In *Morton Salt*, the Court applied the doctrine in a patent case despite the fact that the Seventh Circuit below had required proof of tying under *antitrust* standards and despite the fact that "it did not appear that the use of [the] patent substantially lessened competition or tended to create a monopoly." *Id.* at 490 ("[T]he present suit is for infringement of a patent. The question we must decide is not necessarily whether respondent has violated the Clayton Act . . . ."); *see also id.* at 494 ("It is unnecessary to decide whether respondent has violated the Clayton Act . . . ."). Thus, by the late 1940s, the patent tying doctrine that had emerged from the "long line" of patent cases cited in *Loew's* was entirely divorced from antitrust principles and concepts (other than shared usage of the word "monopoly").[4]

2. Certainly, the two 1940s antitrust decisions on which *Loew's* principally rests, *International Salt*, 332 U.S. 392 (1947), and *Paramount Pictures*, 334 U.S. 131 (1948), contain no express reference to any IP-based market power

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4 This conclusion is not shaken by any of the three other decisions (in addition to *Motion Picture Patents*, *Carbice* and *Morton Salt*) from the "long line" of patent tying cases. *See Loew's*, 371 U.S. at 46. *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938), was a patent case with no discussion of antitrust concepts. *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436 (1940), although an antitrust case, involved not tying but vertical price fixing by a patent licensor and made only brief reference to the patent tying doctrine in the course of rejecting any notion that the price fixing at issue was immunized by patent ownership. *Id.* at 455-56. *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944), was a patent case involving only incidental procedural questions about an antitrust counterclaim.

"presumption" (the word is absent from both cases) and, even more significantly, provide no sound *antitrust* basis for any such presumption. Nor is it apparent that the outcome in either case hinged on an implicit presumption of market power, whether justified or not.

First, it is far from clear that *International Salt* even relied on the existence of a patent to presume or infer market power. The decision contains no discussion of market power as such, no invocation of the patent tying doctrine,[5] and only a single reference to the "limited monopoly" that "appellant's patents confer" ("to restrain others from making, vending or using the patented machines"). 332 U.S. at 395. The Court did state that defendant's "patents afford no *immunity* from the anti-trust laws," *id.* at 396 (emphasis added), but a presumption of market power does not follow from this premise.[6] Indeed, as discussed *infra*, at Section I.B, in *Northern Pacific R. Co. v. United States*, 356 U.S. 1, 9 (1958), it was said that "[i]n arriving at its decision in *International Salt* the Court placed no reliance on the fact that a patent was involved nor did it give the slightest intimation that the outcome would have been any different if that had not been the case."

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5 "The 'patent misuse' doctrine may have influenced the Court's willingness to strike down the arrangement at issue in *International Salt* . . ., although the Court did not cite the doctrine in that case." *Jefferson Parish*, 466 U.S. at 37-38 n.7 (O'Connor, J., concurring in judgment).

6 In the next paragraph, the Court explained that "[t]he volume of business affected by these contracts cannot be said to be insignificant or insubstantial and the tendency of the arrangement to accomplishment of monopoly seems obvious," 332 U.S. at 396, but if it was patent ownership that made this "tendency . . . seem[] obvious," the Court did not say so explicitly.

If an antitrust presumption of market power was minted in *International Salt,* it went unremarked in *Paramount,* which in relevant part affirmed the lower court's condemnation of block booking under the antitrust laws. *See Paramount Pictures,* 334 U.S. at 156-59. "[T]he Court [in *Paramount*] did not analyze the arrangement with the schema of the tying cases. Rather, the Court borrowed the patent law principle of 'patent misuse,' which prevents the holder of a patent from using the patent to require his customers to purchase unpatented products." *Jefferson Parish*, 466 U.S. at 37-38 n.7 (O'Connor, J., concurring in judgment). This "borrowing" of *patent* principles for application to an *antitrust* case involving *copyrights* occurred without any antitrust analysis at all, much less any exploration of the differences and variations between copyright and patent rights as a matter of IP law.[7] In any event, a market power presumption need not be read into *Paramount* to uphold the Court's condemnation there of block booking given the absence of any indication in the opinion of any challenge to the existence of market power.[8]

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[7] *Paramount* merely accepted the patent-copyright analogy uncritically, asserting that "the result is to add to the monopoly of the copyright in violation of the principle of the patent cases involving tying clauses." 334 U.S. at 158. Its only independent analysis of copyright law, in a footnote, declares that "[t]he exclusive right granted by the Copyright Act . . . includes no such privilege." *Id.* at 158 n.12. None of the other decisions cited in *Loew's* as authority for the patent tying principle contains *any* discussion of copyrights save for a passing reference in two sentences (both *dicta*) in *Morton Salt,* 314 U.S. at 494.

[8] Nor is there any indication that the defendants disputed the existence of market power in the District Court. *See United States v. Paramount Pictures, Inc.*, 66 F. Supp. 323, 348-52 (S.D.N.Y.

[Footnote continued on next page]

3. Finally, independent of its attempted reliance on precedent, *Loew's* provided no real explanation or analytic support justifying a market power presumption on grounds of either economic reality or antitrust policy. True, the "[patent tying] cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products," *Loew's,* 371 U.S. at 46, but *Loew's* offered no reason to think that this extension of control would always or virtually always lessen competition or tend to create an antitrust monopoly. The decision never explained why "the existence of a valid patent on the tying product, without more, establishes a distinctiveness sufficient to conclude that any tying arrangement involving the patented product would have anticompetitive consequences." *Id.* (citing *International Salt*, 332 U.S. 392, and *Paramount Pictures*, 334 U.S. at 156-59).

Of course, while *Loew's* denied that the defendants there could "escape the applicability of *Paramount Pictures,*" 371 U.S. at 48, it was at pains to hold that the record below contained factual findings of "sufficient economic power" serving to "*confirm* the presumption of uniqueness resulting from the existence of the copyright itself." *Id.* (emphasis added). Moreover, the Court found "there can be no question in this case of the adverse effects on free competition resulting from appellants' illegal block booking contracts." *Id.* at 48-49. Thus, a presumption of market power was not strictly necessary to the Court's decision in that case.[9] In short, what the Court said of

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[Footnote continued from previous page]

1946); *see also United States v. Paramount Pictures, Inc.*, 70 F. Supp. 53 (S.D.N.Y. 1946).

[9] This is not to contend that the record in *Loew's* would necessarily compel a finding of market power under the Court's modern framework of analysis. *See infra,* at Section I.C.

another flawed antitrust "rule" is true as well of the *Loew's* presumption: "while this Court has previously seemed to acquiesce in the . . . doctrine, it has never explored or analyzed in detail the justifications for such a rule; [and] the doctrine has played only a relatively minor role in the Court's Sherman Act holdings." *Copperweld*, 467 U.S. at 766.

B. The *Loew's* "Presumption" Was A Departure From Earlier Precedent Requiring Some Showing of Actual Market Power.

Insofar as it presumed the existence of market power from the mere ownership of a copyright or patent, *Loew's* parted ways with earlier antitrust precedents of this Court.

1. Even though *Loew's* cited the Court's earlier decision in *Northern Pacific R. Co. v. United States*, 356 U.S. 1 (1958), and purported to follow its teaching that "[t]he standard of illegality is that the seller must have 'sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product,'" *Loew's*, 371 U.S. at 45 (quoting *Northern Pacific*, 356 U.S. at 6), its market-power presumption cannot be reconciled with *Northern Pacific*'s analytical framework or its reading of prior precedent. *Northern Pacific* held that "where the seller has no control or dominance over the tying product so that it does not represent an effectual weapon to pressure buyers into taking the tied item any restraint of trade attributable to such tying arrangements would obviously be insignificant at most." 356 U.S. at 6. But the mere fact that the seller owns a copyright or patent does not, without more, mean that the seller has "control or dominance," or even "sufficient economic power," over the tying product. *See infra*, at Sections I.C and II. *Northern Pacific* recognized as much itself, when it interpreted its prior decision in *International Salt* as follows:

> In arriving at its decision in *International Salt* the Court placed no reliance on the fact that a patent was involved nor did it give the slightest intimation that the outcome would have been any different if that had not been the case. If anything, the Court held the challenged tying arrangements unlawful despite the fact that the tying item was patented, not because of it.
>
> . . .
>
> Of course it is common knowledge that a patent does not always confer a monopoly over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the patent privileges is slight.

356 U.S. at 9-10 & n.8 (emphases added).

2. Moreover, in even earlier antitrust cases, the Court invoked no presumption of market power based on intellectual property ownership but relied on economic evidence of the defendants' market power over the tying product in condemning the tying arrangements at issue. *See United Shoe Machinery Corp. v. United States*, 258 U.S. 451, 455 (1922) (defendant "occupies a dominant position" in its market, with "a very large percentage of such machinery"); *International Business Machines Corp. v. United States*, 298 U.S. 131, 133, 136 (1936) (defendant IBM, with stated market share of 81%, was one of only two firms left in market). Notably, the Court attached no significance in these cases to the fact that the tying products were patented. *See, e.g.*, *International Business Machines*, 298 U.S. at 138 (noting that "the lawfulness of the tying clause must be ascertained by applying to it the standards prescribed by [Clayton Act section] 3 as though the leased article and its parts were unpatented"); HOVENKAMP, JANIS & LEMLEY, *supra*, § 4.2e2 ("[A] significant point of the [*United Shoe Machinery*] case is

that the Court did *not* draw its inferences of power from patent ownership, but rather from the defendant's dominant position in the market for machinery of the type it made.") (emphasis in original).

C. The *Loew's* Presumption Has No Place In This Court's Modern Approach to Market Power.

While the Court has made reference to the *Loew's* presumption in two of its subsequent cases, it has never applied it to date.[10] Far from relying on presumptions, the Court's decisions postdating *Loew's* have made clear that the modern approach to market power analysis focuses fundamentally on the critical question of the defendant's power over price and output in the relevant market.

1. As early as *Fortner Enters., Inc. v. United States Steel Corp.*, 394 U.S. 495 (1969) ("*Fortner I*"), this Court explicitly recognized that "[m]arket power is usually stated to be the ability of a single seller to raise price and restrict output." *Id.* at 503. Subsequently, in *United States Steel Corp. v. Fortner Enters., Inc.*, 429 U.S. 610 (1977) ("*Fortner II*"), the Court clarified that its prior precedents "focus attention on the question whether the seller has the power, within the market for the tying product, to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market. In short, the question is whether the seller has some advantage not shared by his competitors in the market for the tying product." *Id.* at 620 (footnote omitted); *see also Will v. Comprehensive Accounting Corp.*, 776 F.2d 665, 672 (7th Cir. 1985) (*Fortner II* "held that as a matter of law factual uniqueness was not enough . . . to establish market power") (Easterbrook, J.).

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10 *See United States Steel Corp. v. Fortner Enters., Inc.*, 429 U.S. 610, 619 (1977) (*dicta*); *Jefferson Parish Hospital Dist. No. 2 v. Hyde*, 466 U.S. 2, 16 (1984) (*dicta*).

2. In *Jefferson Parish Hospital Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984), the Court explained that "we have condemned tying arrangements when the seller has some special ability . . . usually called 'market power.'" *Id.* at 13-14.[11] The possession and misuse of such power supplies "the essential characteristic of an invalid tying arrangement," which "lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms." *Id.* at 12. The Court explained that *per se* condemnation is inappropriate when "the seller does not have either the degree or the kind of market power that enables him to force customers to purchase a second, unwanted product in order to obtain the tying product." *Id.* at 17-18. Thus, "any inquiry into the validity of a tying arrangement must focus on the market or markets in which the two products are sold, for that is where the anticompetitive forcing has its impact." *Id.* at 18. Applying this framework, the Court proceeded to reject the plaintiff's *per se* tying claim, holding that a mere "preference" of some consumers in the relevant market for the tying product was insufficient to establish market power when 70% turned to other alternatives. *Id.* at 26-29.

As the four-Justice concurrence in *Jefferson Parish* noted, this analytical framework was inconsistent with any IP-based presumption of market power:

> A common misconception has been that a patent or copyright, a high market share, or a unique product

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11 The Court explained that: "As an economic matter, market power exists whenever prices can be raised above the levels that would be charged in a competitive market." *Jefferson Parish*, 466 U.S. at 27 n.46; *accord NCAA v. Board of Regents*, 468 U.S. 85, 108 n.38 (1984) ("Market power is the ability to raise prices above those that would be charged in a competitive market.").

> that competitors are not able to offer suffice to demonstrate market power. While each of these three factors might help to give market power to a seller, it is also possible that a seller in these situations will have no market power: for example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product.

466 U.S. at 37-38 n.7 (O'Connor, J., concurring in judgment, with Burger, C.J., Powell, Rehnquist, J.J.). [12]

3. Finally, in *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451 (1992), this Court reaffirmed that a "necessary feature of an illegal tying arrangement" is proof of "appreciable economic power in the tying market." *Id.* at 464. The Court made clear that such a showing requires proof of market power — "the power 'to force a purchaser to do something that he would not do in a competitive market'" — which the Court again "defined as 'the ability of a single seller to raise price and restrict output.'" *Id.* As discussed further *infra*, at Section II.A,

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12 While IP rights were not at issue in *Jefferson Parish*, the majority had stated in *dicta* that "if the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that *the inability to buy the [defendant's] product elsewhere* gives the seller market power." *Id.* at 16 (emphasis added). This observation was in obvious tension with the majority opinion's actual *holding* that the ability of customers in the relevant market to buy the defendant's *competitors'* products elsewhere was sufficient to defeat any claim of market power. Indeed, one year later, two members of the *Jefferson Parish* majority indicated their desire to revisit the question of "what effect should be given to the existence of a copyright or other legal monopoly in determining market power." *Data General Corp. v. Digidyne Corp.*, 473 U.S. 908, 909 (1985) (White, J., dissenting from denial of *certiorari*, along with Blackmun, J.).

the *Kodak* Court affirmed that "[i]n determining the existence of market power, . . . this Court has examined closely the *economic reality* of the market at issue." *Id.* at 466-67 (emphasis added) (footnote omitted). [13]

4. The modern antitrust analysis of market power thus requires inquiry into the relevant market and the defendant's economic power in that market. Defining the relevant market involves identifying those "products that have reasonable interchangeability for the purposes for which they are produced — price, use and qualities considered." *United States v. E. I. duPont de Nemours & Co.*, 351 U.S. 377, 404 (1956). The existence of market power is normally inferred from the defendant's possession of a predominant share of the relevant market, in conjunction with evidence of high barriers to entry, little excess capacity held by rivals, and a lack of buyer power. *See, e.g., Kodak*, 504 U.S. at 464; 1 ABA Section of Antitrust Law, ANTITRUST LAW DEVELOPMENTS 233-46 (5th ed. 2002). Accordingly, "the relevant question is not whether a single intellectual property right standing alone confers power, but rather whether power can be inferred from the antitrust defendant's entire market position. This position includes significant intellectual property rights in addition to other facts concerning the firm itself and the market in which it operates. These factors embrace the range of substitutes for the defendant's good, which may

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13 In rejecting an argument for immunity based on "inherent monopoly," the Court noted that it had "held many times that power gained through some natural and legal advantage such as a patent, copyright, or business acumen can give rise to liability if 'a seller exploits his dominant position in one market to expand his empire into the next.'" *Id.* at 479 n.29 (quoting *Times-Picayune Publishing Co. v. United States*, 345 U.S. 594, 611 (1953)). The Court neither cited *Loew's* nor addressed whether intellectual property was presumed to confer such a "dominant position."

be quite large notwithstanding the patent or copyright; barriers to entry; excess capacity held by rivals; sophistication of buyers; and others. In sum, the presence of intellectual property rights may sometimes be an important factor in assessing a firm's market power, but just as often it will be relatively unimportant." *See* HOVENKAMP, JANIS & LEMLEY, *supra*, § 4.2c.

II. A PRESUMPTION OF MARKET POWER BASED SOLELY ON OWNERSHIP OF INTELLECTUAL PROPERTY FINDS NO SUPPORT IN MODERN ECONOMIC THEORY OR ACTUAL MARKET EXPERIENCE

This Court's own decisions regarding inferences and presumptions in antitrust cases lay bare the true nature of the *Loew's* presumption as nothing more than a "[l]egal presumption that rest[s] on formalistic distinctions rather than actual market realities." *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 466-67 (1992) (footnote and citations omitted). The presumption does not purport to be, nor can it be, grounded in economics, logic or experience.

A. The *Loew's* Presumption Conflicts With This Court's Consistent Requirement That Antitrust Presumptions Be Reliably Anchored In Market Realities And Sound Economic Reasoning.

This Court has repeatedly rejected presumptions that lack logical and empirical validation — so that there is no assurance that the presumed fact is always or at least reliably a correct characterization of the real world — as a basis for resolving modern antitrust cases. *See, e.g., Cal. Dental Ass'n v. Fed. Trade Comm'n*, 526 U.S. 756, 775 & n.12, 779-81 (1999) (stating "assumption alone will not do"; truncated antitrust analysis is proper only when "an enquiry meet for the case, looking to the circumstances, details, and logic of a restraint" shows that "the experience

of the market has been so clear, or necessarily will be, that a confident conclusion about the principal tendency of a restriction will follow"); *Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447, 459 (1993) (rejecting Ninth Circuit rule that permitted inferences of specific intent and dangerous probability to be drawn solely from proof of defendant's conduct in attempted monopolization cases "without any proof . . . of a realistic probability that the defendant could achieve monopoly power"); *Cont'l T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 58-59 (1977) ("departure from the rule-of-reason standard must be based upon demonstrable economic effect rather than . . . formalistic line drawing"). As this Court has emphasized: "'Realities must dominate the judgment. . . The Anti-Trust Act aims at substance.'" *Cont'l T.V.*, 433 U.S. at 46-47.

This aversion to legal fictions in antitrust cases simply cannot be reconciled with the *Loew's* market power presumption. No decision makes this point more clear than *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451 (1992), a tying case in which the defendant urged the adoption of a "legal presumption against a finding of market power" in aftermarket cases when such power is lacking in the associated original equipment market. *Id.* at 466-67. In addressing this argument, the Court explained that:

> Legal presumptions that rest on formalistic distinctions rather than actual market realities are generally disfavored in antitrust law. This Court has preferred to resolve antitrust claims on a case-by-case basis, focusing on the 'particular facts disclosed by the record.' In determining the existence of market power, and specifically the 'responsiveness of the sales of one product to price changes of the other,' this Court has examined closely the economic reality of the market at issue.

Id. at 466-67 (footnote and citations omitted, including, *inter alia*, citation to *Jefferson Parish*, 466 U.S. at 37

(O'Connor, J., concurring in judgment)). After analyzing extensively the "factual assumptions underlying [the] proposed rule," the Court found "no immutable physical law — no 'basic economic reality' — insisting that competition in the equipment market cannot coexist with market power in the aftermarkets" and concluded that the proposed presumption did not necessarily "describe actual market behavior . . . accurately." *Id.* at 469-78. Hence, the Court rejected the presumption.

By contrast, in *Loew's* and its antecedents, the Court never even purported to have examined closely the economic reality of the intellectual property markets at issue or otherwise to have put to the test the factual assumptions and economic reasoning underlying the *Loew's* presumption.[14] Instead, "formalistic distinctions" imported from patent doctrine provided the presumption's principal (if not sole) support. In any event, as discussed below, there is no immutable economic law, no basic market reality and no proven regularity of commercial experience validating the *Loew's* presumption.

B. Presuming The Existence of Market Power From the Mere Existence of A Copyright or Patent Makes No Economic Sense And Finds No Empirical Support.

There is simply no rational basis, whether in logic, economic theory, or empirical experience, for a presumption of market power based solely on intellectual property ownership.

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[14] Further, there has never been any showing that the presumption serves to deter conduct that always or almost always injures competition, which is what would be required "to warrant a legal presumption without any evidence of its actual economic impact." *Kodak*, 504 U.S. at 479; *see also Cont'l T.V.*, 433 U.S. at 50 n.16.

1. No substantive basis of any sort is provided for the *Loew's* presumption by the fact that commentators and courts (including this Court) have spoken of patents and copyrights as conferring "monopolies." While this terminology may be conventional in the intellectual property context, "this use of the term 'monopoly' would be incorrect for economic analysis generally or antitrust analysis in particular." HOVENKAMP, JANIS & LEMLEY, *supra*, § 4.2a; *see also* WILLIAM M. LANDES & RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 374 (2003) ("Talk of patent and copyright 'monopolies' is conventional. . . . The usage is harmless as long as it is understood to be different from how the same word is used in antitrust analysis."); ROBERT L. HARMON, PATENTS AND THE FEDERAL CIRCUIT § 1.4(b), at 21 (5th ed. 2001) ("Patent rights are not legal monopolies in the antitrust sense of the word. Not every patent is a monopoly, and not every patent confers market power."). This is so for several reasons.

First, while the patent and copyright laws confer legal "rights to exclude," the possession of such rights is hardly unique to intellectual property owners. Owners of tangible property also possess rights to exclude. "One does not say that the owner of a parcel of land has a monopoly because he has the right to exclude others from using the land. But a patent or copyright is a monopoly in the same sense. It excludes people from using some piece of intellectual property without consent. That in itself has no antitrust significance." *Id.*; *see also, e.g.*, HOVENKAMP, JANIS & LEMLEY, *supra*, § 4.2a ("The intellectual property laws do not purport to confer any monopoly . . . but only the right to exclude others from producing the good, expression or symbol covered by the intellectual property interest. This right is a property right that is not different in principle from other property rights."). Second, to equate antitrust and IP "monopolies" would be to confuse the legal "power to exclude" under intellectual property law with the economic "power over price and output" that is the

hallmark of market and monopoly power in the antitrust sense. *See* Section I.C, *supra*. These are related but far from identical concepts.

Similar objections would apply to any effort to justify the *Loew's* presumption on the basis that grants of IP "monopolies" impart or imply "uniqueness" or "distinctiveness." That is to say, these qualities may also characterize tangible property (without giving rise to an inference of market power) and in any event are not logically equivalent to power over price and output. Even more fundamentally, the possession of an IP right does not necessarily imply that the covered product is (meaningfully) unique or distinctive in the first place.[15] While the *Loew's* opinion used these terms, it identified no connection between a film's copyright and its uniqueness, distinctiveness or desirability.[16] In fact, no such

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[15] The "originality" threshold for a copyright "is very low, requiring only evidence of independent creation and some minimal level of creativity. The work need not be novel or distinctive." HOVENKAMP, JANIS & LEMLEY, *supra*, § 2.3b2 (footnotes omitted). The "novelty" requirement in patent law is generally "satisfied as long as the patent applicant was the first to invent the claimed invention." ROGER D. BLAIR & THOMAS F. COTTER, INTELLECTUAL PROPERTY: ECONOMIC AND LEGAL DIMENSIONS OF RIGHTS AND REMEDIES 8 (2005).

[16] *Loew's* acknowledged both the "presence of competing substitutes for the tying product" and "the fact of competition" between the tied and foreclosed films — even though all these films were copyrighted. 371 U.S. at 49. The opinion professed to find such competition "insufficient to destroy the legal, and indeed the economic, distinctiveness of the copyrighted product," *id.* at 49, but provided no explanation for this conclusion, citing only *dicta* in *Standard Oil Co. of Cal. v. United States*, 337 U.S. 293, 307 (1949), and *Times-Picayune Pub. Co. v. United States*, 345 U.S. 594, 611 & n.30 (1953), to the effect that "[a] patent, . . .
[Footnote continued on next page]

connection necessarily exists. "[T]he thing that makes [a tying film] highly desirable is hardly its copyright; after all, both [the tying] and [the tied films] are copyrighted. ... And the existence of the copyright could not change the status of [a tied film] from undesirable to desirable." HOVENKAMP, JANIS & LEMLEY, *supra*, § 4.2e3.

2. Any effort to equate IP "monopolies" with antitrust market power is not just simplistic, but also heedless of significant differences and variations among types of IP (as a matter of intellectual property law) that may be highly relevant for antitrust purposes. In particular, the indiscriminate branding of IP rights as "monopolies" disguises the fact that copyrights confer a more limited bundle of rights than do patents. *See, e.g., Eldred v. Ashcroft*, 537 U.S. 186, 217 (2003) ("[D]istinguishing the two kinds of intellectual property, copyright gives the holder no monopoly on any knowledge. A reader of an author's writing may make full use of any fact or idea she acquires from her reading. The grant of a patent, on the other hand, does prevent full use by others of the inventor's knowledge.") (citations omitted); U.S. Department of Justice and Federal Trade Commission Antitrust Guidelines for the Licensing of Intellectual Property § 1.0 (1995) ("Unlike a patent, which protects an invention not only from copying but also from independent creation, a copyright does not preclude others from independently creating similar expression."); BLAIR & COTTER, *supra*, at 28-29 ("the rights of a copyright owner remain somewhat less expansive than the corresponding patent owner's rights"); HOVENKAMP, JANIS & LEMLEY, *supra*, § 2.3a ("Copyrights are subject to a variety of defenses and limitations (e.g., fair use, compulsory

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although in fact there may be many competing substitutes for the patented article, is at least prima facie evidence of" "market control of the tying device."

licensing) having no analog in patent law."); HAL R. VARIAN, JOSEPH FARRELL & CARL SHAPIRO, THE ECONOMICS OF INFORMATION TECHNOLOGY: AN INTRODUCTION 54-55 (2004) ("Compared with patents . . . copyrights are 'narrow' in the sense that they do not prevent others from creating or distributing similar works: the copyright on one movie does not prevent others from making movies with similar themes or plot lines."). It also obscures the fact that copyrights can be easier and less costly to create. *See, e.g.*, HOVENKAMP, JANIS & LEMLEY, *supra*, § 4.2d ("The cost of obtaining a copyright is nominal and within the reach of even amateur poets and graduate students producing theses or dissertations."); IIA PHILLIP E. AREEDA, HERBERT HOVENKAMP, & JOHN L. SOLOW, ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION ¶ 518b2, at 143 (2d ed. 2004) ("While the patent application process is relatively costly and requires a showing that something is new, useful, and nonobvious, virtually any novel expression can be copyrighted upon the payment of a nominal fee."). All of these limiting factors are highly relevant to the *economic* question of whether market power may be inferred from mere copyright possession.

3. In any event, whether applied to copyrights or patents, the *Loew's* presumption is thoroughly unsound as a matter of substantive antitrust economics. For the mere possession of an IP right to give rise to an inference of market power that is "reasonable" and that "makes economic sense" (*Kodak*, 504 U.S. at 468-69), such ownership must satisfy the elements of proof for antitrust market power. That is, such ownership in and of itself (1) either must rule out any interchangeable (substitute) products entirely or must permit only minor substitutes accounting for a small (non-predominant) market share; and (2) must be inconsistent with low barriers to entry and any and all other factors that serve to prevent market power. *See supra*, at Section I.C.

There is, however, no immutable economic law or other basis in modern economic theory for thinking that either of these propositions is *necessarily* true, given that the intellectual property laws do not forbid competition by non-infringing products, or otherwise guarantee the existence of high entry barriers and other market features conducive to market power. For example, "a patent holder has no market power in any relevant sense if there are close substitutes for the patented product," *Jefferson Parish*, 466 U.S. at 37-38 n.7 (O'Connor, J., concurring in judgment), and it is undeniable that "there will often be sufficient actual or potential close substitutes for [a] product, process or work [covered by an IP right] to prevent the exercise of market power." U.S. Department of Justice and Federal Trade Commission Antitrust Guidelines for the Licensing of Intellectual Property § 2.2 (1995).[17]

This Court has recognized the force of such considerations by declining to create any presumption of patent-based antitrust monopoly power for purposes of Section 2 of the Sherman Act. *See Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177-78 (1965) ("To establish monopolization or attempt . . . under § 2 of the Sherman Act, it would then be necessary to appraise the exclusionary power of the illegal patent claim in terms of the relevant market for the product involved.");

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17 *See also, e.g.*, BLAIR & COTTER, *supra*, at 19 ("for most patented inventions . . . there is a range of acceptable, nonpatented substitutes"); HOVENKAMP, JANIS & LEMLEY, *supra*, § 1.3a (a patented product "normally competes for the attention of consumers with many other products, some themselves protected by intellectual property rights"); IIA AREEDA, HOVENKAMP & SOLOW, *supra*, ¶ 518a, at 136 (noting the market power conferred by a patent is limited because rivals can "invent around" the patent to create substitute goods).

United States v. E. I. duPont de Nemours & Co., 351 U.S. 377, 404 (1956) (despite ownership of cellophane patents, defendant could "not be found to monopolize cellophane when that product has the competition and interchangeability with other wrappings" shown by the record); HOVENKAMP, JANIS & LEMLEY, *supra*, § 4.2e5.

The Federal Circuit below distinguished this authority on formalistic grounds, *see* 396 F.3d at 1349 ("*Walker Process* was a *section 2* case asserting claims of monopolization, not a *section 1* claim for tying") (emphases added), but although "[m]onopoly power under § 2 requires . . . something greater than market power under § 1," *Kodak*, 504 U.S. at 481, the lack of any presumption under Section 2 is *not accounted for* by any finding that patents characteristically confer "the ability . . . to raise price and restrict output" falling just short of the monopolistic level. Rather, the absence of a presumption flows from this Court's recognition that a patented product may "not comprise a relevant market," that "[t]here may be effective substitutes for the device which do not infringe the patent," and that issues like these are "a matter of proof" requiring resort to "economic data." *Walker Process*, 382 U.S. at 177-78. These considerations cannot be reconciled with the *Loew's* presumption.

4. The *Loew's* presumption also comprehensively fails the empirical test of market reality. First, to be valid even as a mere generalization (although this would hardly warrant the creation of a legal presumption under the Court's precedents), the *Loew's* presumption would have to be shown to be true of the majority of patents and copyrights. But in light of the sheer volume of patents and copyrights in existence — easily numbering in the

millions[18] — such a showing would imply a pervasiveness of market power in the American economy of a degree that has never been suggested much less demonstrated.

Second, it is a broadly accepted empirical finding that the vast majority of patented and copyrighted products have no commercial value.[19] An intellectual property

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[18] The U.S. Patent and Trademark Office ("USPTO") receives over 350,000 applications a year and issues nearly 200,000 patents. USPTO, PERFORMANCE AND ACCOUNTABILITY REPORT FY 2004 § 6.4.1, Table 1, *available at* http://www.uspto.gov/web/offices/com/annual/2004/060401_table1.html. The "stock" of patents is currently in excess of 6 million. ADAM B. JAFFE & MANUEL TRAJTENBERG, PATENTS, CITATIONS & INNOVATIONS 3 (2002). Copyright registrations by the U.S. Copyright Office exceed 500,000 annually. U.S. COPYRIGHT OFFICE, ANNUAL REPORT OF THE REGISTER OF COPYRIGHTS 2004 at 64, *available at* http://www.copyright.gov/reports/annual/2004/appendices.pdf. Given ease of creation and the fact that registration is not required for copyright protection to attach, *see, e.g.*, 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 6:6 (4th ed. 2005), the true volume of copyrights created in a given year (or in total) is unknown but likely to be a multiple of the number of registrations.

[19] *See, e.g.*, BLAIR & COTTER, *supra*, at 19 ("a majority of patents are never commercialized at all, much less meet with competitive success"); HOVENKAMP, JANIS & LEMLEY, *supra*, §§ 1.3a, 4.2a ("the vast majority of patented products and processes are commercial failures"; "Many patented inventions are never brought to market, and many published books never get beyond their first printing."); IIA AREEDA, HOVENKAMP & SOLOW, *supra*, ¶ 518a, at 138 ("To obtain a patent, the applicant must show an invention is new, useful, and nonobvious. . . . [S]atisfying these three requirements does not mean that the resulting patent can be marketed at all. Most patents have no commercial value."); JAFFE & TRAJTENBERG, *supra* note 18, at 27

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right that has little or no value *a fortiori* lacks market power. For example, only 5 percent (or fewer) of patents are ever licensed or enforced by litigation. *See* LANDES & POSNER, *supra*, at 320 n.52 (citing Samson Vermont, *The Economics of Patent Litigation*, *in* FROM IDEAS TO ASSETS: INVESTING WISELY, IN INTELLECTUAL PROPERTY 327, 332 (Bruce Berman ed. 2002)); Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 Nw. U. L. REV. 1495, 1507 & n.55 (2001). From half to two-thirds of issued patents actually lapse for failure to pay maintenance fees (amounting at most to a few thousand dollars) before the end of their term. *Id.* at 1503 & n.34. Similarly, copyright renewal data (from the period prior to the advent of automatic renewal in 1992) demonstrate that about 80% of copyrights were never renewed (despite small costs of doing so). LANDES & POSNER, *supra*, at 237-38. Of course, to observe that most IP rights have little or no value is not to contend that IP rights *never* confer market power. "A small percentage of copyrights or patents do in fact claim so much success that their owners acquire significant market power from them, but given the small number this fact can hardly be presumed." HOVENKAMP, JANIS & LEMLEY, *supra*, § 4.2a.

5. Given that a presumption of market power based on mere IP ownership lacks any rational support, the virtual unanimity of antitrust scholars in rejecting such a presumption is unsurprising. "Putting it bluntly, to presume market power in a product simply because it is protected by intellectual property is nonsense." HERBERT HOVENKAMP, FEDERAL ANTITRUST POLICY: THE LAW OF

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(2002) ("there is substantial evidence to the effect that the distribution of patent values is highly skewed toward the low end, with a long and thin tail into the high-value side"); SUZANNE SCOTCHMER, INNOVATION AND INCENTIVES 275-79 (2004) (summarizing findings of empirical research).

COMPETITION AND ITS PRACTICE 142 (1999). *See also, e.g.*, HOVENKAMP, JANIS & LEMLEY, *supra*, §§ 4.2-4.3; LANDES & POSNER, *supra*, at 373-74; IIA AREEDA, HOVENKAMP, & SOLOW, *supra*, ¶ 518a, at 136-37; X PHILLIP E. AREEDA, HERBERT HOVENKAMP & EINER ELHAUGE, ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION ¶ 1737a, at 79 (2004); *Id.* ¶ 1737d, at 83; RICHARD A. POSNER, ANTITRUST LAW 197-98 (2d ed. 2001); William Montgomery, Note, *The Presumption of Economic Power for Patented and Copyright Products in Tying Arrangements*, 85 COLUM. L. REV. 1140, 1149-52 (1985); ROBERT H. BORK, THE ANTITRUST PARADOX 365-68 (1978).

Even more notable is the position adopted by the agencies most directly responsible for enforcing U.S. antitrust policy — the Department of Justice ("DOJ") and the Federal Trade Commission ("FTC"). In 1995, the DOJ and FTC jointly issued Antitrust Guidelines for the Licensing of Intellectual Property, drawing on the Agencies' extensive experience in case-by-case antitrust analysis of real-world markets involving intellectual property. These Guidelines explained that: "The Agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner." *Id.* at § 2.2. This guidance remains in full force a decade later. Indeed, it was unmodified after full exploration in extensive hearings held in 2002 under the auspices of both agencies (involving input from 300 panelists over 24 days) regarding Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy. The results of those hearings were reflected in a 2003 report in which it was reaffirmed that: "Patents *do not always or even frequently* confer monopoly power on their owners. Indeed, *most patents do not confer monopoly power on their holders*. . . ." FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY 8-9 & n.55

(2003), *available at* http://www.ftc.gov/os/2003/10/innovationrpt.pdf (emphasis added and footnote omitted) ("this report uses the terms ['monopoly power' and 'market power'] interchangeably").

CONCLUSION

For the foregoing reasons, the *Loew's* presumption cannot and should not serve to uphold the judgment of the Court of Appeals below. While the matter at bar is a patent case, the Court should reverse the judgment below and make clear that its holding applies to copyrights and other forms of IP as well. "[I]t would seem quite anomalous to conclude that the presumption should no longer apply to patents, which historically have carried the strongest presumption of power, and not to conclude that it has been lifted from non-patent intellectual property as well." HOVENKAMP, JANIS & LEMLEY, *supra*, § 4.2e6.

Respectfully submitted.

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APPENDIX

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Daniel E. Robbins also represents the Motion Picture Association of America, Inc.

Victor S. Perlman represents the American Society of Media Photographers, Inc.

No. 04-1329

IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS, INC. AND TRIDENT, INC.,
Petitioners,

v.

INDEPENDENT INK, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF PROFESSORS BARRY NALEBUFF, IAN AYRES, AND LAWRENCE SULLIVAN AS AMICI CURIAE IN SUPPORT OF RESPONDENT

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INTEREST OF THE AMICI CURIAE[1]

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Ian Ayres is the William K. Townsend Professor at Yale Law School. He is a lawyer and holds a Ph.D. in Economics. Professor Ayres has written eight books and more than 100 articles in both law reviews and economic journals that cover a variety of topics, including several on antitrust and/or patent issues.

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[1] In accordance with Rule 37.6, amici certify that counsel for a party did not author this brief in whole or in part and that no entity other than amici or their counsel made a monetary contribution to the preparation or submission of the brief.

articles on antitrust law. He served on the Commission on Antitrust Law and Procedure established by President Carter.

Amici curiae have no stake in the outcome of this particular case. Their interest lies in assisting the Court in reaching a correct and economically sound application of antitrust law concerning tying arrangements. A full understanding of the broader anticompetitive issues associated with tying is critical to this Court's consideration of the issue of market power conferred by a patent used in a tying contract. The last two decades have brought significant advances in the economic theory of bundling and tying, and Professor Nalebuff has been deeply involved in those developments. Of particular relevance to this case is the current economic theory explaining why firms engage in tying contracts, how those contracts may affect consumer welfare and market efficiency, and the extent to which those contracts carry anticompetitive potential. This brief seeks to contribute to the Court's understanding of those issues.

Counsel for the parties have consented to the filing of this brief in letters filed with the Clerk of the Court.

INTRODUCTION AND SUMMARY OF ARGUMENT

The "Chicago School" of economic theory has criticized the application of antitrust law to tying arrangements, arguing that there is no possible gain from leveraging a monopoly in one market to another. *See* Aaron Director & Edward Levi, *Law and the Future: Trade Regulation*, 51 Nw. U. L. Rev. 281 (1956); Robert Bork, *The Antitrust Paradox: A Policy at War with Itself* (NY: Free Press 1995 ed.). More recent developments in economic theory, however, have shown that this argument is true only in a *static* or short-run context. In a *dynamic* or long-run context, the use of a tied sales contract can help protect the existing monopolist from entry or can help the monopolist gain a second monopoly in the tied sales good.

A tied sales contract can also be used as a "metering" device. The firm meters the use of its good A (e.g., a printer) by the use of a required complementary good B (e.g., ink). Selling the complementary good at a premium price allows the seller to increase its profits via what is known as second-degree price discrimination. Price discrimination via metering appears to be the most compelling explanation for the tying contract in this case.

Metering is an exercise of a firm's monopoly power. Indeed, it is direct evidence of market power. It is often argued erroneously that since metering is a form of price discrimination it leads to enhanced efficiency.[2] While *perfect* price discrimination leads to enhanced efficiency, there is no presumption that *imperfect* price discrimination—such as the pricing tariff created via a requirements tie contract—will improve efficiency. Output may fall as the pricing used to extract more surplus from some customer groups leads other consumers to be excluded from the market. Attempts to impose price discrimination also lead to direct costs on firms and consumers. There is no efficiency reason to facilitate metering and price discrimination via tied sales contracts.

Furthermore, there are distribution consequences from price discrimination: the gains to the seller will be largely offset, or even outweighed, by the loss to consumers. Price discrimination via tied sales contracts is generally harmful to consumers because high-value consumers end up paying more for the product. Additional customers brought into the market add to profits but do not capture much of the benefits for themselves.

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[2] *See, e.g.*, Bork at 398; Br. of Amicus Curiae Verizon Communications, at 8 ("[A]ntitrust policy is disserved by rules of law that discourage any firm, including a monopolist, from adopting efficient practices and vigorously competing to the detriment of rivals."). Contrary to Judge Bork, however, there is no presumption that metering is an efficient practice.

The potential to leverage market power, the potential for inefficiency, and the distributional consequences are three reasons to be suspicious of tying contracts. The Court should balance these potential harms against the relatively small expected costs associated with retaining the current rebuttable presumption of market power. Under the status quo, few firms will employ the type of requirements tie seen in this case. Even where this type of a requirements tie contract is efficient, there is little lost from its absence. The reason is that the firm can still engage in direct metering. For example, instead of charging a marked-up price for ink, the firm can charge a per-page price for the use of the printer. This will achieve the effect of price discrimination while avoiding any potential harm to competition in the tied good market.

While the existence of a patent is not by itself conclusive evidence of market power, the Court is confronted here with a subset of all patents in which there exists a complementary product that must be used with the patented product in order to get the patented product to provide the output for which it was purchased. In these patent situations, the imposition of a requirements tie is strongly indicative that the seller has significant market power, thus justifying a presumption that, while rebuttable, favors the challenger to the tie. This Court has long recognized such a presumption, and it should not disturb the existing rule.

ARGUMENT

A REQUIREMENTS TYING ARRANGEMENT FOR ESSENTIAL COMPLEMENTARY GOODS TO A PATENT-PROTECTED PRODUCT SHOULD BE PRESUMED TO REFLECT MARKET POWER BECAUSE ITS PURPOSE IS "METERING," AND MARKET POWER IS REQUIRED TO IMPOSE PRICE DISCRIMINATION VIA "METERING" ON CUSTOMERS

A. Tying Arrangements for Required Complementary Goods Are Often Designed to Implement a Metering System of Differential Pricing

In a tied sale, the seller requires the customer to purchase a specific second good (B) along with its primary product (A). A tied sale can be contemporaneous. For example, in *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), a movie theater that wanted to exhibit the studio's popular movies was also required to exhibit its less popular movies.

Alternatively, the primary product can be connected to a complementary product via a requirements tie in which the purchaser of product A must make its future purchases of the required product B from the firm selling A. For example, IBM required its computer hardware customers to purchase its punch cards. *See IBM v. United States*, 298 U.S. 131 (1936). Lessees of an A.B. Dick mimeograph machine were required to purchase all of their future ink from A.B. Dick. *See Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912).

There are two salient features of a requirements tie. First, the two products are essential complements in that the original product is of no value without the tied product. A mimeograph machine without ink is of no value. In contrast, a movie theatre can benefit from screening one film without screening the other films in the tied sales.

Second, the value of the original product is related to its intensity of use. A customer that makes more mimeograph copies will generally place a higher value upon the mimeograph machine and require more ink. A customer that does more computing will generally place a higher value upon the computer and have a greater need for punch cards. More frequent use requires more complementary products, thereby allowing the seller to charge more to and earn more from high-value customers.

Price discrimination is not the only motivation for a tie. Broadly speaking, there are five possible reasons why firms might engage in a tie: (a) preservation of quality and reputation; (b) cost savings; (c) risk allocation; (d) leveraging market power; and (e) price discrimination via metering.

The first three motivations enhance efficiency and are often used to justify a tying contract. The first two motivations, however, generally are not relevant to a requirements tie, and the risk allocation justification is not relevant to this case.

Leveraging market power is the most commonly invoked justification for prohibiting tied contracts. This motivation presents a genuine antitrust concern in many situations and is a legitimate reason for the courts to be suspicious of tying contracts. This motivation, however, also appears to be inapplicable on the facts presented here.

Price discrimination via metering is the most compelling explanation for the requirements tying contract in this case. Accordingly, after a brief discussion of the first four motivations, this brief will focus upon the antitrust issues associated with a requirements tie used for the purposes of price discrimination.

1. The Economic Rationales Typically Advanced for Tying Arrangements Are Not the Appropriate Explanation for the Requirements Tie in This Case or in Many of This Court's Relevant Precedents

a. Preservation of Quality and Reputation

Firms may be motivated to tie for reasons related to quality and/or safety. For example, if a machine breaks down or the end result fails, the seller will suffer a loss of reputation. Thus, a firm may specify other inputs in order to ensure proper results.

While this motivation may apply in some circumstances, it has been invoked as an antitrust defense to an extent that strains credibility. *See* Br. for Appellants at 13, 34, *Int'l Salt Co. v. United States*, 332 U.S. 392 (1947); Br. for Appellants at 8-16, *IBM v. United States*, 298 U.S. 131 (1936); Br. for Appellants, Vol. 1, at 221-26, *United Shoe Mach. Co. v. United States*, 258 U.S. 451 (1922); Br. for Appellees at 13, *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912). The courts have usually rejected the quality explanation as a defense in tying cases, though the defense was accepted in the case of automobile spare parts. *See Grappone, Inc. v. Subaru of New England, Inc.*, 858 F.2d 792 (1st Cir. 1988).

In this case, petitioner Trident made the usual claim that respondent's ink was of lower quality and caused damage to printer heads, although petitioner lacked evidence to support this finding. J.A. 442a, 478a. Chemical analysis showed that the inks were indistinguishable. J.A. 519a-523a. In any event, sophisticated industrial users should be able to judge the quality of the output or to observe damage to the printer heads. Moreover, even if the quality were inferior, the quality might be good enough and the price reduction significant enough that a user would choose to purchase respondent's product.

A basic problem with invoking the quality argument as an antitrust defense is that the compulsion of a tied sale should not be *necessary* to achieving the professed goal of ensuring quality. If the primary good manufacturer is the only firm selling complementary or aftermarket products that ensure quality, then customers should choose the firm's other products without be forced to do so. If the product fails as a result of using inferior complementary or aftermarket products, the firm can help educate the customer that the failure was caused by other products and not by the original product.

b. Cost Savings

A related argument to quality is that the tied sale promotes cost reduction or enhanced efficiency. Professors Evans and Salinger have identified many examples of such tying arrangements. *See* David Evans & Michael Salinger, *An Empirical Analysis of Bundling and Tying: Over the Counter Pain Relief and Cold Medicines* (CESifo Working Paper No. 1297) (2004); David Evans & Michael Salinger, *Why Do Firms Bundle and Tie? Evidence from Competitive Markets and Implications for Tying Law*, 22 Yale J. on Reg. 38 (2005).

In some of these cases, the tied sale of complementary products can be viewed as one product rather than two. Thus, shoes are sold with shoelaces. It is more efficient for the shoemaker to include laces of the right length with the shoes than to make the purchaser buy the initial pair of shoelaces separately.

The sale of a printer with the *initial* toner or ink cartridge is another such example. The least-cost way of delivering an initial cartridge is along with the printer. Selling printers with an initial cartridge is a contemporaneous tied sale. Unlike the sale of replacement cartridges, it is not a case of metering. All customers get the same number of initial cartridges, namely, one. Furthermore, such a tied sale is *de minimus* in

that it affects only a small percentage of the total market. If the average customer purchases 20 cartridges over the lifetime of the printer, the initial sale covers only 5% of the market.

The efficiency or one-good arguments generally do not apply to the case of a requirements tie. No one imagines that a lifetime supply of shoelaces is really part of the original shoe and shoelace package. Nor do we imagine that there are cost savings associated with requiring the customer to purchase all future shoelace needs from a specified manufacturer. To the extent that there are cost savings, they should be reflected in lower prices that lead consumers to purchase aftermarket products from the most efficient supplier.

Cost efficiencies thus are not a valid explanation for why a firm would *require* its customers to make all complementary good purchases from itself or a specified vendor. The efficiency defense of a requirements tie is less compelling than for a contemporaneous tie because there is little danger that dissolving the requirements tie would disrupt an efficient production or distribution arrangement.

A related claimed justification is that the tie creates economies of scale. Under this contention, however, the scale economies would be arising in the tied goods market. That would suggest that the tied goods market does not have the cost structure of a competitive market and thus may be subject to a monopoly.

c. Risk Allocation

Petitioners argue (Pet. Br. 30) that a requirements tie is efficient because it improves risk allocation. When customers are uncertain about the value of the product, sellers can reduce the risk via a no-lose contract. The buyer pays a small amount upfront and a price with each use, making the sale more like a lease. In effect, the customer pays for the

product only if and when he uses it. This type of contract also signals the seller's confidence that the buyer will value the original good. The per-use sales contract is typically done via a requirements tie for a consumable product used with the original item.

While risk allocation can be an efficient use of tying, it does not appear relevant to this case. Commercial users of inkjet printers have a better understanding of their own expected usage than does the seller. For example, the demand for printing on beer cases is a direct function of beer production, and therefore that demand is better understood by the inkjet customer than by the seller. Furthermore, inkjet is not a new and unproven technology. If risk allocation were a motivation, then the customer would be asking for a metering contract, and it would be an option, not a requirement imposed upon the customers. That is, customers would have the option of buying a printer at one price without a requirements tie or at a lower price with such a tie. Neither risk allocation nor signaling requires the use of a tied sales contract; both can be done via direct metering.

d. Leveraging Market Power

A fourth motivation for tying is leveraging market power. This Court's early decisions on tying were motivated by this concern. This explanation for tying has been subject to harsh criticism from academic economists, especially the "Chicago School." According to the Chicago School argument, a firm that has a monopoly in good A has only one monopoly profit to earn and thus cannot gain by leveraging its power into a second market for good B.

The mistake in the Chicago School argument is that it takes a static or short-run perspective. Thus, although it is true that the firm that engages in tying may not increase its present one-monopoly profits, that is not the point of the tie. The tied sales are designed to help preserve the original monopoly or to lead to monopolization of the aftermarket

product. *See* Dennis Carlton & Michael Waldman, *The Strategic Use of Tying to Preserve and Create Market Power in Evolving Industries*, 33 RAND J. Econ. 194 (2002); Michael D. Whinston, *Tying, Foreclosure, and Exclusion*, 80 Am. Econ. Rev. 837 (1990); Barry Nalebuff, *Bundling as an Entry Deterrent Device*, 119 Q. J. Econ. 159 (2004).

The tying of one good to another may reverberate back into the market where the firm has power. If the tying arrangement leads to exit in the tied-good market, this in turn may reduce the possibility of entry in the original market.

For example, the likely entrant might have come from a firm in the tied-good market. This scenario was central to the U.S. antitrust case against Microsoft. *See United States v. Microsoft Corp.*, 253 F.3d 34, 50 (D.C. Cir. 2001) (en banc). There, the PC operating system was the original market and an Internet browser was the tied market. Microsoft's tied sales made it more difficult for Netscape to compete in the browser market. Even if consumers were no worse off for the loss of competition in the browser market, they may have lost one of the few potential entrants who could have challenged Microsoft's market power in the operating system market.

Tying may also protect monopoly power through the loss of competition in the tied-good market. This becomes a form of raising rivals' costs. Entry is deterred if the tied good is an essential complement to the original product and is no longer available (or is available only at a much higher cost) to a potential entrant.

If the firm controls enough of the market for the complementary product, then it may attain a monopoly in that market as well. Depending on the cost of entry and minimal efficient scale in this market, the product A monopolist may then enjoy the fruits of two monopolies. The Chicago School argument assumes that the product B market remains competitive. But, as a result of the requirements tie, the B

market may over time become more concentrated or even monopolized.

Although these examples illustrate an important theoretical point, leveraging market power does not appear to be the motivation for the tie in this case. It is unlikely that Trident's exclusion of respondent will lead to monopolization of the ink market or to increased costs for future entrants into the printer head business. As a theoretical matter, however, the antitrust law should recognize that a firm may want to engage in tying in order to extend or protect its market power. That dynamic incentive to tie does not conflict with the Chicago School argument, which is inherently static in nature. When relevant, the concern over leveraging market power can justify a prohibition against tied sales by a firm with a patent or other source of market power.

2. Tying Arrangements Like the One in This Case Are Designed to Implement a Metering System That Charges Higher Prices to Heavier Users of the Primary Product

"Metering" describes a practice under which a customer is charged a price based on his or her use of the product. This allows the seller to raise its profits by charging more to high-value customers, while still making sales at lower prices to low-value customers. It has long been understood that metering can be a useful price discrimination tool. *See* Ward Bowman, *Tying Arrangements and the Leverage Problem*, 67 Yale Law J. 19 (1957).

Metering is the most powerful explanation for the requirements tie in this case. Indeed, it appears to be the best explanation for the tying arrangement in many of the cases decided by this Court. *See* Louis Kaplow, *Extension of Monopoly Power Through Leverage*, 85 Colum. L. Rev. 515 (1985).

The common feature of these cases is that firms with a patented product conditioned the sale or lease of that product on the purchase of an essential complementary product. *See Int'l Salt Co. v. United States*, 332 U.S. 392 (1947);[3] *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938); *IBM Corp. v. United States*, 298 U.S. 131 (1936); *Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27 (1931); *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912). This Court indicated that the alleged purpose of the tying practice in these cases was to extend the firm's monopoly to the tied market. As critics of these decisions have argued, it does not seem reasonable that commodity products such as salt, tar, punch cards, dry ice, or mimeograph fluid would be monopolized. It is more reasonable that the primary purpose of the tying contracts was to engage in price discrimination via metering.

In each of these cases, the intensity of use of the original product was directly related to the consumption of the aftermarket product. Companies interested in making more mimeograph copies required more mimeograph fluid and companies interested in paving more roads required more bituminous emulsion. On average, the buyer's valuation of a product is related to its predicted usage. Thus, customers placing the highest value on mimeograph machines are the ones making the most copies. By requiring the customer to purchase mimeograph fluid with a high markup, the producer of the original equipment was able to charge a higher price to high-value customers while preserving sales to low-value customers.

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[3] A noteworthy aspect of the International Salt contract was that the lessee was not required to purchase salt from International Salt if comparable salt was available in the market at a lower price. *See* 332 U.S. at 395 n.5. If such a provision had existed in the license agreement involved here, the agreement would be less objectionable. Respondent would have been able to sell its ink at the discounted price or Trident would have had to match the discount.

While the price-discrimination argument is the most compelling explanation of many tying contracts, this argument has rarely been invoked in court to justify such conduct. Professor Kaplow determined in 1985 that defendants had only twice argued that the tied product sale is used as a metering device, and then only in summary fashion:

> This alternative explanation has not appeared in a Supreme Court brief in the past 63 years. In *United Shoe Mach. Co. v. United States*, 258 U.S. 451 (1922), counsel for the appellant-defendant allocated one clause of a single sentence in a 1,562 page brief to the proposition that the tied products might serve as a meter to measure the use of the tying product. . . . In *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912), counsel for the appellee-defendant similarly argued that the tied product operated as a meter capable of measuring the use of the tying product so as to facilitate the determination of an appropriate royalty.

Kaplow, 85 Colum. L. Rev. at 545.

Most of the early cases preceded the economic theory of metering, and thus it is not surprising that metering is not analyzed in those cases. *Id.* Modern defendants may be reluctant to raise metering as a defense for fear that the court will see price discrimination as evidence of market power, which would then lead to a *per se* violation. As this Court has observed: "If, as some economists have suggested, the purpose of a tie-in is often to facilitate price discrimination, such evidence would imply the existence of power that a free market would not tolerate." *United States Steel Corp. v. Fortner Enters., Inc.*, 429 U.S. 610, 617 (1977).

Metering can be done directly or through a tied sale. Under direct metering, the customer is charged a per-use or metered fee. For example, Monsanto charged a per-acre technology use fee for its patented Roundup-ready seeds. Under the tied sale, the metering is based on the use of a

complementary product, as with printers and toner or ink. The ink or toner usage provides a good indication of how many copies have been made. A key ingredient of the metering is that the tied aftermarket product is sold at a price premium. The customer would prefer to buy the tied product elsewhere but is prevented from doing so either by contract, technology constraints, or lack of alternatives.

There has been some confusion as to whether this type of metering leads to additional monopoly profits. In *Grappone, Inc. v. Subaru of New England, Inc.*, 858 F.2d 792, 795 (1st Cir. 1988), the court (per Breyer, J.) stated (emphasis added):

> If the seller does have, and has been fully exercising, market power, it also cannot force buyers to take a more expensive or less desirable Product B, *unless* it provides buyers *equivalent* compensation by lowering the price of Product A . . .

To the extent that this statement suggests that a monopolist cannot obtain more profits via a tied sale, it misreads the Chicago School argument. That argument assumes that all consumers purchase identical quantities of good B, and thus there is no opportunity to engage in price discrimination via metering.

When customer demand for good B is indicative of the customer's value for good A, however, a monopolist can force the purchase of an overpriced good B without the need to offer equivalent compensation. In so doing, the monopolist increases its profits though the greater exercise of its market power.

This potential is illustrated by the following example positing two consumers for a printer. The consumers' value for the printer depends on the intensity of use. Absent a requirements tie, copies can be made at a competitive price of $1/copy. Consumer 1 expects to make 10 copies that he values at $2/copy. Thus, consumer 1 expects to get a surplus

of $1/copy and is willing to pay up to $10 for the machine. Consumer 2 expects to make 6 copies that he values at $2/copy. Thus, consumer 2 is willing to pay up to $6 for the machine.

Without an option to engage in a tied sale or metering, the monopolist maximizes profits by charging $6 for the machine and selling two machines, yielding $12 in profits (assuming zero production cost). When a requirements tied sale is possible, however, the monopolist can also force the buyer to use its overpriced paper. The paper is marked up so that the monopolist earns $1/page. Thus, consumers now find the cost of copying to be $2/page. In this case, the monopolist can give away the machine for free and still earn higher profits. Customer 1 will make 10 copies and customer 2 will make 6, leading to total profits of $16.

Note that customer 2 pays the same amount in both cases. For that customer, the reduction in the machine price is equivalent compensation for the increased cost of the tied good. However, customer 1 is now paying $10 rather than $6. That customer receives no equivalent compensation and hence is worse off, though not so much worse off as to reject the purchase of the machine.

This example illustrates that a monopolist charging a single price in the market does not fully exercise its market power. The use of a requirements tied sales contract allows a seller to exercise its market power more fully.

Note that this example does not contradict the Chicago School one-monopoly-profit argument discussed above. *See supra* pp. 10-11; Robert Bork, *The Antitrust Paradox: A Policy at War with Itself* (NY: Free Press 1995 ed.); *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 36 (1984)). The monopolist has increased its monopoly profits via the metering arrangement. There is still only one monopoly profit, but the size of that monopoly profit is

variable based on the producer's ability to engage in price discrimination.

In this example, consumer welfare is reduced as a result of the metering contract. The reason why consumer surplus typically falls is that those consumers with the highest value and the highest surplus are the ones who end up paying the biggest increase in price. The new customers brought into the market are the ones with the smallest surplus to begin with, and they keep little of it. The largest source of increased profits is the transfer from consumers to the producer.

To the extent that a firm is given a legal monopoly via a patent, that monopoly power is expanded when the firm is allowed to engage in tied sales for the purpose of metering. The expansion does not arise because of power in the complementary market. Rather, the increased power comes in the original market. Consumers do not expect to benefit when firms are able to meter via a tied sale.

The requirements tie is a unilaterally imposed contract. But unlike a unilateral price cut that hurts competitors and helps consumers, the requirements tie hurts both groups—consumers pay more and competitors in the tied goods market are excluded.

Metering is the predominant explanation for most requirements tie contracts. This includes many of the tying cases considered by this Court. Much of the academic criticism of the decisions is due to the Court's focus on the leverage of monopoly power as the motivation for, and hence the reason to condemn, tying. Although the criticism of that focus on leveraging monopoly power is well-taken, the holdings of those cases remain justifiable on economic grounds. The act of price discrimination via tied sales creates a harm to consumers. In the case of patents, the tied

complementary sales extend the term of the patent as well as the monopoly power of the patent holder.[4]

B. The Use of Tying as a Metering Device Implicates Serious Antitrust Concerns

We turn now to the question of how the courts should consider the use of tying as a metering device, which we discuss in three stages. First, we explain that, although price discrimination can expand output and improve efficiency in some cases, requirements ties may also lead to reduced efficiency. No special assumptions are required to reach this result, and hence there is no basis for a presumption that price discrimination via metering will be efficient. Second, we show that metering is evidence of market power. Third, we explain that direct metering is an alternative to tied sales that does not involve unlawful exploitation of market power.

1. Imperfect Price Discrimination Has Not Been Demonstrated to Be Efficient in the Marketplace

Petitioners assert (Pet. Br. 27) that "[m]ost tying arrangements are economically beneficial." Yet few of the claimed benefits apply to the case of a requirements tie like that imposed by petitioner Trident. The predominant benefit claimed is that "patent tying may create efficiencies in calculating license fees" (at 29). An unstated, but implied, efficiency is the act of price discrimination.

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[4] A requirements tie extends indefinitely into the future, thus effectively extending the life and power of the patent beyond its statutory term. In that sense, it appears to be both a misuse of the patent and a violation of Section 1 of the Sherman Act in that it is a contractual provision that imposes an unreasonable restraint on trade. While the 1988 Patent Misuse Reform Act addresses the right of a patent holder to condition the sale of the patented product on the purchase of a separate product, not all tied sales are permitted. A tie that requires market power is excluded as it implies the patent owner has market power. *See* 35 U.S.C. § 271(d)(5).

In elementary economic textbooks, it is almost taken as a given that price discrimination is efficient, but this is an unfortunate oversimplification. *See* Kathleen Carroll & Dennis Coates, *Teaching Price Discrimination: Some Clarification*, 66 S. Econ. J. 466 (1999). There are two problems with that conclusion.

The first problem is one of interpretation. The efficiency argument treats the impact on consumers and producers equally. The gain to the monopolist from price discrimination comes from increased sales and from an increased ability to capture surplus from consumers. Thus, while the monopolist gains, consumers lose.[5] With perfect price discrimination, consumers end up with no surplus at all. Even if the monopolist gains more than the consumers lose, that net gain in efficiency should not justify allowing the tied contract. Producer profits and consumer surplus should not be (and are not) treated equivalently in antitrust.[6] The expected harm to consumers should result in striking down the tied contract even if there is a net gain in economic efficiency.

The second problem is fundamental: for all practical purposes, there is no reason to believe that price

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[5] Under special circumstances, price discrimination may result in a gain to consumers. The price discrimination must lead to a large increase in output, and the increased output must result in significant economies of scale. *See* Jerry A. Hausman & Jeffrey K. MacKie-Mason, *Price Discrimination and Patent Policy*, 19 RAND J. Econ. 253 (1988). This result also requires that the high-value consumers obtain very little surplus under the one-price-to-all contract.

[6] For example, Section 2 of the Sherman Act prohibits monopolization without regard to its efficiency. Thus, a firm charged with monopolization could not use the potential efficiency of price discrimination as a defense. Consumers are given more weight than producers when calculating damages in antitrust cases. Damages are not based on the loss of overall efficiency, but rather on metrics such as overcharges or loss to consumer welfare.

discrimination is efficient. The classic efficiency result is based on perfect price discrimination (also known as first-degree price discrimination). Perfect price discrimination requires the firm to have perfect knowledge about each customer's valuation. In practice, perfect price discrimination does not exist. Instead, price discrimination is based on purchase behavior such as the use of a complementary product (called second-degree price discrimination) or on observable group characteristics such as senior citizen discounts (called third-degree price discrimination). In the simple case of linear demand and constant costs, both second- and third-degree price discrimination can result in lower efficiency.[7] *There is no general result that suggests that imperfect price discrimination improves efficiency, even treating consumer surplus and producer profits equally.*

Of particular relevance to this case is the potential efficiency of price discrimination via metering tariffs. With a single consumer in the market and complete knowledge of the customer's preferences, a metering tariff can extract all the surplus and achieve perfect efficiency. In his book, Judge Bork uses the intuition of perfect price discrimination to assert that "the more the monopolist is allowed to discriminate, the better are the results in terms of resource allocation." Bork, *The Antitrust Paradox*, at 398.

But this conclusion is false because with imperfect price discrimination, more is not always better. Specifically, the introduction of metering can reduce market efficiency when customers are heterogeneous. As the monopolist uses metering to capture more surplus from large customers, this

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[7] Third-degree price discrimination causes a misallocation of goods to consumers, thereby reducing efficiency. Where demand functions are linear and the good is produced at a constant marginal cost, profits increase, but by less than the loss to consumers. *See* Richard Schmalensee, *Output and Welfare Implications of Monopolistic Third-Degree Price Discrimination*, 71 Am. Econ. Rev. 242 (1981).

may lead to small and medium customers being excluded entirely from the market; as a result, total output and efficiency both fall. *See* John E. Kwoka, Jr., *Output and Allocative Price Efficiency Under Second-Degree Price Discrimination*, 22 Econ. Inquiry 282 (1984). There is no evidence, empirical or theoretical, suggesting that imperfect price discrimination in general and metering, in particular, improves efficiency.[8]

Furthermore, firms will find resistance to their attempts to impose imperfect price discrimination. This resistance leads to an often overlooked inefficiency where firms spend significant resources to impose price discrimination while consumers spend resources to avoid being subject to price discrimination.

This leads to a third reason why price discrimination is costly: no firm has a perfect monopoly. Consumers can find ways to create substitutes. They will do their best to avoid being subject to price discrimination, and these avoidance efforts end up being very costly. Unlike the consumer welfare loss of one price to all, where low-value customers end up being excluded from the market, price discrimination causes high-value customers to distort their behavior, which can make the costs especially large.

Airline pricing illustrates this phenomenon. Airlines use seven-day advance purchase and Saturday night stayover restrictions to offer discounts to leisure customers while still getting business travelers to pay full fare. In response to this policy, some business travelers extend their stays to include a Saturday night. This distortion in behavior can lead to large social losses, well above the incremental gains from the extra demand that arises at the discounted fares. *See* Barry

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[8] A necessary, but not sufficient, condition is that price discrimination lead to an expansion in output. *See* Hal R. Varian, *Price Discrimination and Social Welfare*, 75 Am. Econ. Rev. 870 (1985).

Nalebuff, *Bundling, Tying, and Portfolio Effects* at 78 (DTI Economics Paper No. 1) (2003) (illustrating this point with numerical example). The effort to price discriminate is also costly to firms that make large investments in CRM software in order to fine tune pricing to customers.

2. Metering Is Evidence of Market Power

The ability to engage in price discrimination is evidence of market power. This justifies a rule specifying that requirements tying arrangements result in a rebuttable presumption of market power. Accordingly, in this case the Court need not determine whether a patent on its own is evidence of market power. Rather, the question is whether a patent-protected firm that engages in a forced tie to complementary products has market power.

When firms are able to price discriminate it follows that some customers are more profitable than others. In a perfectly competitive market, such results are not possible. A firm that chose to undercut the price to the most profitable customers would gain all of those customers. Thus, even if firms are earning zero profits in aggregate, a firm could make money by targeting the most profitable segment of the market.

Where we do see price discrimination in practice, we also observe firms with market power. This correlation is evidenced by several situations in which firms have engaged in price discrimination via direct metering. The examples below are drawn from Nalebuff, *Bundling, Tying, and Portfolio Effects*, at 17, 74-75.

Monsanto developed a patent-protected seed that would make crops insensitive to Roundup, an inexpensive and potent pesticide that had previously killed crops along with weeds. The value of this innovation was related to the acreage planted and not to the crop yield. The savings to the farmer were based on the farmer switching to Roundup as an

herbicide, and these savings were proportional to the acreage planted. Thus, Monsanto charged a per-acre technology-use fee for its Roundup-ready crop seed.

Summit developed a patent-protected laser machine for correcting vision. The value of the machine to a doctor was directly proportional to the number of eyes corrected using these machines. As a result Summit charged a per-use fee for its laser eye surgery device.

Wizard International pioneered a machine to automate mat cutting for picture framers. When the machine initially came out, stores could rent it at a monthly fee and pay a charge per corner. Buying the machine was not an option. Wizard wanted to capture as much surplus as possible from high-volume users. But that approach created an opportunity for a competitor to enter the market. It could target Wizard's most profitable customers by offering a fixed-price contract. Indeed, as Wizard faced competition, it changed its contract terms so that users could purchase its machine at a fixed price and pay no per-corner fees.

Technological innovations, often protected by patents, can give the firm market power that allows it to extract more profits by engaging in price discrimination. Such price discrimination leaves the high-profit customers open to competitors. When such firms enter the market, price discrimination is no longer sustainable.

This conclusion might seem at odds with such common practices as senior citizen discounts at movie theaters. One explanation is that the differential pricing reflects differential

costs.[9] Another explanation is that the differential pricing reflects a small degree of market power. With senior citizen discounts, the extent of price discrimination is quite small, and is commensurate with a small degree of market power for a local movie theater. *The general point is that the amount of price discrimination a firm can impose is related to its market power*. Petitioner Trident charged 2.5 to 4 times the price offered by respondent (J.A. 117a), indicating a substantial degree of price discrimination and hence market power.

3. Any Economic Benefits That Might Accrue from Metering Should Be Obtained Directly Through Transparent Pricing Policies Rather Than Indirectly Through an Exploitation of Market Power in Tying Arrangements

If tying arrangements are designed as an indirect method of metering, the question arises why the producer does not simply contract with customers to pay a per-use fee. Direct metering seems easier than enforcing a tied sale.

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[9] If the senior citizen discount is for the matinee showing, then the firm's opportunity costs are lower for that showing because the cinema is unlikely to be full in the afternoon. Thus, the lower price also reflects lower costs. See John R. Lott Jr. and Russell D. Roberts, *A Guide to the Pitfalls of Identifying Price Discrimination*, 29 Econ. Inquiry 14 (1991).

Other kinds of confusion arise over the issue of allocating joint production costs. For example, Professor Levine has observed that the price of sirloin exceeds the price of flank steak and yet one is not more costly to produce than the other. Michael E. Levine, *Price Discrimination Without Market Power*, 19 Yale J. on Reg. 1 (2002). A more careful examination shows that prices do indeed reflect costs. A firm would like to sell more sirloin and less flank steak. The problem is that a cow provides fixed proportions of the two steaks. With joint production, the cost of producing one item is related to the selling price of the other. Thus, the true cost of producing flank steak is the cost of rearing a cow net of the price of the sirloin. As the producer can sell the sirloin for a higher price than the flank, the net cost of producing flank is less than that of producing sirloin.

For example, a firm selling copying machines could install a counter in the machine and charge a per-copy fee. When the counter hit zero, the customer would be unable to print until he paid a fee and downloaded a new code. Monitoring the counter seems no more difficult, and perhaps even easier, than monitoring whether the customer is using the required toner or ink.

Prior to computers and the Internet, the cost of administering such a system might have been prohibitive. The counter might have been expensive and the refill process might have been cumbersome. Today, printers already come with built-in counters, and consumers could simply download a refill code upon payment of a fee for next 1,000 or 10,000 pages.

While such direct metering is obviously enhanced by technology, it appears to have been feasible in commercial applications for some time. In *Morton Salt Co. v. G.S. Suppinger Co.*, 314 U.S. 488 (1942), the machines were used to add salt to canned food, and thus Morton could have measured how many cans of tuna were produced. As noted above, Monsanto, Summit, and Wizard International have implemented systems of per-use fees for their products. In this case, petitioner Trident could have the printer OEMs add a counter to their printers and thereby charge end customers a fee based on the number of cartons printed.

The reason such a direct approach is more the exception than the rule is because firms anticipate consumer resistance to this kind of pricing. Metering via a requirements tied sale is less obvious to consumers. With direct metering, the customer must be told what the cost is per page or per use. With indirect metering, customers may be in the dark. Market power is enhanced by the shrouded nature of the pricing.

Studies show that most customers have little idea of how much it costs to print a page using a laser printer or with

inkjet cartridges. Customers do not know the capacity of the ink or toner cartridge measured in typical pages. Even if they can forecast the future cost of the cartridge, they do not know the proper denominator. *See* Xavier Gabaix & David Laibson, *Shrouded Attributes, Consumer Myopia, and Information Suppression in Competitive Markets* (MIT Dep't. of Econ. Working Paper No. 05-18) (2005).

Indirect metering via tied sales is a more subtle form of price discrimination. It achieves a similar result to direct metering without a blatant or naked exercise of market power. Thus, it may facilitate metering and thereby enhance a firm's existing market power.

If the antitrust law were held to prohibit indirect metering via tied sales, firms with true market power would still be able to continue price discrimination via direct metering. Such actions would be legal. Firms that had been able to price discriminate only because customers were fooled by shrouded prices would no longer be able to artificially enhance their market power at the expense of consumers.

There is no reason for the courts to facilitate price discrimination. Those firms that are so powerful that they can meter directly will be able to do so whether tied sales are prohibited or not. In that sense, there is no risk of the per se rule leading to false positives.

The structured per se prohibition serves a purpose. It is possible that the forced tied sale will change the nature of competition in the tied market or will protect market power in the original market. These circumstances will be eliminated if the law presumes such arrangements to reflect market power. It is also possible that the firm was able to get away with price discrimination because consumers were not entirely aware of the true cost of the aftermarket products tied to the original sale. If the prohibition reduces a firm's ability to fool consumers and thereby inflate its market power, that would be a gain to consumers.

Even if price discrimination via metering is efficient, firms may continue to seek those efficiencies through direct metering. That does not mean that a patent-protected firm that cannot meter directly should be allowed to do so indirectly via the forced tied sale contract. Metering via a tied sale has the potential to leverage or protect market power. Direct metering has no such potential.

Some patents are more valuable than others. If the patent provides enough power to charge a per-unit licensing fee then the firm in entitled to the extra profits that come from price discrimination. But if the firm is able to charge a per-unit fee only indirectly via a tied sale, then the firm is using the complementary product to enhance its market power. The courts should not facilitate a firm's attempt to enhance its market power in this way.

CONCLUSION

Requirements tied sales contracts are evidence of market power. The predominant explanation for such contracts is price discrimination via metering. Such metering will typically lead to reductions in consumer welfare. There is no presumption that total welfare will increase. Even when there is a gain, the efficiency calculations leave out the costs required to enforce and to counter such metering.

Metering may reduce competition in the tied market when it is done via a complementary good. There is no risk to competition when metering is done directly. Competition makes it difficult for a firm to impose direct metering on its customers. Metering via a requirements tie may be less obvious and thus require less market power to employ. Interpreting the antitrust law so as not to facilitate metering via a requirements tied sale is desirable.

The Court can apply the rebuttable presumption of a patent's market power in the context of tying a patented

product to a complementary good, while rejecting a presumption as to the market power of a patent in other areas.

The judgment of the court of appeals should be affirmed.

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In The Supreme Court of the United States

ILLINOIS TOOL WORKS INC.
AND TRIDENT, INC.,

RECOVERED COPY

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

On Writ Of Certiorari
To The United States Court Of Appeals
For The Federal Circuit

BRIEF OF NATIONAL ASSOCIATION OF THEATRE OWNERS AND VIDEO SOFTWARE DEALERS ASSOCIATION AS *AMICI CURIAE* IN SUPPORT OF RESPONDENT

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INTEREST OF *AMICI CURIAE*

As trade associations representing businesses who sell, rent and exhibit copyrighted audiovisual works, and who have long enjoyed freedom to decide the amount of space, number of screens, or investment dollars to dedicate to any given copyrighted work, National Association of Theatre Owners, Inc. (hereafter "NATO") and Video Software Dealers Association, Inc. (hereafter "VSDA") respectfully submit this brief as *amici curiae* in accordance with Supreme Court Rule 37.[1]

NATO is the largest exhibition trade organization in the world, representing over 500 members with nearly 28,000 movie screens in all 50 states, and additional cinemas in more than 40 countries worldwide. NATO's membership includes the largest cinema chains in the world, as well as hundreds of small, independent theaters. Most of these small theaters have only one or two screens, and possess neither the market position to resist an effort at copyright leveraging by product suppliers, nor the resources to mount a legal challenge to such practices, should the legal environment regarding such practices become less clear.

VSDA's members are retailers and distributors of "home videos" – lawfully made copies of motion pictures and other audiovisual works – offered for rental and sale to the public (both new and used) in thousands of video stores, from small single-store retailers to major chains

[1] The parties have consented to the filing of this brief. Copies of their respective letters of consent are submitted herewith. Counsel for a party did not author this brief in whole or in part. No person or entity other than the *Amici Curiae*, their members, or their counsel made a monetary contribution to the preparation and submission of this brief.

and mass merchants, independent of copyright owner control. Their efforts gave rise to the $24 billion home video entertainment industry, built upon independent aggregation of copyrighted works from myriad authors, and presented to the public in a manner intended to most closely match the viewing preferences of each retailer's customer base.

The members of NATO and VSDA compete vigorously in the delivery of lawful copies and lawful public performances of copyrighted audiovisual works. Their businesses are built on understanding the local and individualized demand any given work generates. Success of a movie is measured first by its ranking in box office revenue over the opening weekend, then by total first run box office revenue, and next by home video market revenue. But millions of consumers also seek out individual titles that are more obscure – titles that may only be shown in specialized theaters or marketed directly to video stores without a theatrical run. Works in foreign languages, independent films, and niche products including "how to" videos or local productions with little or no economic viability all vie for the attention of a video retailer or movie theater that may deem the work capable of satisfying a significant portion of its customer base. Because their competitive success depends so heavily on their ability to provide the right mix of product supply to meet consumer demand, any power claimed by the owner of one copyright to dictate terms impacting the flexibility to license or buy any other copyrighted works hinders their freedom to enhance competition, both locally and nationally.

SUMMARY OF ARGUMENT

Amici Curiae do not address the single issue before the Court: whether the presumption of economic power should be maintained in *patent* tying cases. Rather, the brief opposes the suggestion that this Court should relax the presumption of economic power in *copyright* tying cases as well.

Amici Curiae begin by explaining why copyright presents no justiciable issue in this proceeding – there being no parties who put their copyrights at issue, no factual record to sharpen the adjudication of any copyright issue, no actual adjudication of any copyright issue, no intermediate appellate holding addressing copyright law, no signal from this Court in granting certiorari that its inquiry into a patent case would extend to the copyright domain – and indeed, not even a threshold Article III Case or Controversy as to copyright. This Court has never altered both patent and copyright law in tandem – nor ever treated the two domains as interchangeable. When this Court notes similarities – or "borrows" from one domain – it does so carefully and deliberately, and adjudicates only in the domain before it.

Next, the brief examines why criticism of the presumption of economic power in patent tying cases is wholly inapposite to copyright tying cases. Differences in consumer behavior with respect to patented goods and copyrighted works, differences in substitutability and cross-elasticity, and differences in the scope of the two bodies of exclusive rights, to name a few, underscore the fact that the economic theory purporting to justify some patent tying does not translate meaningfully to copyright tying.

In the third section, *Amici Curiae* highlight fundamental public policy differences between these two bodies of law – patent law, which intends to foster the invention of competitive new products with an assumption that each improvement may supplant or *substitute* for the lesser one, and copyright law, which is premised on ensuring the widest possible *cumulative* dissemination of and access to works of authorship. To put it simply, *Amici Curiae* explain how patent tying law assumes that a buyer will choose product A *or* product B, and that public policy is served when the better of the two wins out *to the exclusion of the lesser*, whereas copyright tying law assumes that a buyer may choose product A *and* product B, and that public policy is served when the better work can be selected *in addition to the lesser*. Thus, foreclosure of a patent-tied product might arguably result in a superior consumer "package" in some cases, but foreclosure of a work of authorship from the vast pool of expressive material will always be injurious.

Accordingly, if this Court chooses to limit the scope of the presumption in patent tying cases, it should make clear that nothing in its Opinion should be read to imply any similar relaxation of the presumption in copyright tying cases.

ARGUMENT

I. No Copyright Issue Is Properly Justiciable In This Patent Proceeding

The presumption of market power in tying cases developed separately in the patent and copyright domains. It converged in this Court's articulation of the presumption in

a copyright case, *United States v. Loew's, Inc.*, 371 U.S. 38 (1962). Beyond that coincidence of doctrinal convergence in a copyright case, this case is entirely a patent case. The products at issue are patented. The injury alleged, as a basis for threshold standing, concerns patent tying. The factual record developed in the trial court focused entirely on patents. The economic theories supporting and challenging the presumption overwhelmingly address patents. The trial court adjudicated a patent case. The court of appeals adjudicated a patent case (including denial of an interlocutory appeal) and referenced only patents in its holding. And finally, this Court granted certiorari on the basis of an expressly framed *patent* law question. Indeed, the question presented used the word "patent" three times (and "copyright," zero).

Whence, then, the copyright issue? The *amici curiae* brief submitted by a group of leading associations representing various copyright industries urges this Court to apply any relaxation of the presumption of market power under patent law to copyright law as well.[2] The logic of their suggestion treats copyright jurisprudence as a subset of patent jurisprudence, such that a holding in patent law should apply *a fortiori* to copyright law, despite the absence of any factual record or adjudication of a copyright issue. We respectfully disagree, and urge the Court to adjudicate only the case before it.

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[2] Brief of *Amici Curiae* Motion Picture Ass'n of America, Inc., Ass'n of American Publishers, American Society of Media Photographers, Inc., Business Software Alliance, Entertainment Software Ass'n, Independent Film & Television Alliance, National Football League, and Recording Industry Ass'n of America, hereafter referred to as the "Copyright Industry *Amici*."

A. Adjudicating a copyright issue in this patent case would contravene both congressional and judicial treatment of these two distinct domains

Patents, copyrights, trademarks and trade secrets enjoy the convenient generic denomination of "intellectual property," much as assault and negligent entrustment enjoy the generic denomination of "torts." But the United States Code does not establish any body of law known as "intellectual property." The Code does not use the term "intellectual property" at all with reference to statutory rights and obligations, but solely to describe documents, such as treaties or acts of Congress, containing the term, or to the authority or jurisdiction of administrative offices. To the contrary, Congress codified the laws governing patents, copyrights and trademarks in entirely separate titles, and made scarce provision for trade secrets. Moreover, Congress placed the administration of patents within the jurisdiction of the Department of Commerce's Patent and Trademark Office, 35 U.S.C. § 2,[3] and entrusted the

[3] The only references to "copyrights" in Title 35 appear in Section 2, where the term is used to specifically demark the boundaries touching copyright law and to require cooperation with the Register of Copyrights. For example, Section 2(a) confers general powers solely over the issuance of patents and registration of trademarks, and Section 2(b) grants a number of specific powers to the United States Patent and Trademark Office, including advising the President and others on matters pertaining to "intellectual property," but Section 2(c)(3) states: "Nothing in subsection (b) shall derogate from the duties and functions of the Register of Copyrights or otherwise alter current authorities relating to copyright matters."

administration of copyrights to the Librarian of Congress, 17 U.S.C. § 701.[4]

Congress has not made a single amendment applicable, categorically, to all of the discrete domains within "intellectual property law." Congress instead always amends each body of law separately, and on its own merits, even where some of the same principles might arguably have warranted common treatment. For example, in passing the 1988 Patent Misuse Reform Act, Pub. L. No. 100-703, 102 Stat. 4676 (1988) (codified at 35 U.S.C. § 271(d)(4) & (5)), Congress removed the presumption of market power from the defense of *patent* misuse in tying cases, but left untouched the corollary defense of *copyright* misuse – a doctrine that has continued to develop unhindered by the patent revisions. *See, e.g., Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 976 (4th Cir. 1990) (finding copyright misuse). Conversely, when Congress prohibited the circumvention of technologies that protect against infringing access to a copyrighted work, 17 U.S.C. § 1201 *et seq.*, it took no similar step to prohibit circumvention of technologies used by patent-holders to protect against unlicensed use of their patented products.

Congress plainly did not intend for the courts to develop these discrete bodies of law in lock-step, and neither has this Court nor any other federal court of which

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[4] "All administrative functions and duties under this title, except as otherwise specified, are the responsibility of the Register of Copyrights as director of the Copyright Office of the Library of Congress." 17 U.S.C. § 701(a). The Copyright Act's only reference to patents is intended to prevent overlap. 17 U.S.C. § 1329 (issuance of a design patent terminates copyright in the design).

Amici are aware ever adjudicated "intellectual property" generically.

This Court has clearly borrowed principles from patent law to apply in a copyright case, but it has never adjudicated "patent and copyright law" in a case concerning only one of these domains. For example, this Court has referred to principles applicable when a product is "patented or copyrighted," but such references merely recognize that the principle has been applied in both cases. Even in *Loew's*, which is generally cited for the first use of the phrase in relation to tying, this Court recognized that the application of the principle to patents and to copyrights had already developed separately. 371 U.S. at 45-46 (citing a patent case, *International Salt Co. v. United States*, 332 U.S. 392 (1947), and a copyright case, *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948)). Having applied the twin presumptions through separately justiciable cases and controversies, it cannot follow that a single case applicable to one domain should dispose of the matter for the other.

B. Confining any holding in this case to patent cases comports with well-settled principles of justiciability

It is a fixture of appellate practice that an *amicus*, a non-party, cannot "expand the scope of an appeal to implicate issues that have not been presented by the parties to the appeal."[6] Though its operation seems clear

[6] *Eldred v. Reno*, 239 F.3d 372, 378 (D.C. Cir. 2001), *aff'd on other grounds sub nom. Eldred v. Ashcroft*, 537 U.S. 186 (2003). *Eldred* is instructive because the panel majority declined to consider a new copyright issue, grounded in *the preamble* to the Constitution's copyright

(Continued on following page)

here, *Amici* do not press the argument merely to exclude, with procedural cleverness, an otherwise salutary legal position. Instead, the rule, and its evident operation here, reflects much broader principles of justiciability and federalism that warrant vindication in this proceeding.

A federal court decides whether a case or an issue is properly before it – that is, whether it is justiciable – with reference to several doctrines, including standing, ripeness, mootness, and the political question doctrine. These reflect the constitutional limitation that "federal courts may adjudicate only actual, ongoing cases or controversies." *Lewis v. Continental Bank Corp.*, 494 U.S. 472, 477 (1990); *see also* U.S. CONST. art. III, § 2, cl. 1.

The constitutional limitation, in turn, reflects the careful demarcation between the legislative and judicial functions – the latter properly dispatched only through the presentation of concrete factual injuries and claims. "[A] court must rely on the parties' treatment of the facts and claims before it to develop its rules of law. Only concrete injury presents the factual context within which a court, aided by parties who argue within the context, is capable of making decisions." *Schlesinger v. Reservists Comm. to Stop the War*, 418 U.S. 208, 221 (1974).

The Copyright Industry *Amici* fail this critical predicate for a justiciable issue. Their suggestion on appeal, in a patent case, obviously precludes the requisite factual *adjudication* of any asserted injury that implicates the

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clause, in a case otherwise concerning the Constitution's copyright clause. *See also Knetsch v. United States*, 364 U.S. 361, 370 (1960) (noting that the Court had no reason to pass upon an *amicus* argument not advanced by petitioners).

presumption of market power in a copyright tying dispute. The Court cannot know in this case, for example, what kind of injury the Copyright Industry *Amici* might assert in an actual dispute – or what kind of injury might be asserted against them. The Court cannot know in this case how the presumption of market power may accord with the factual context of an actual copyright tying case, nor obtain a "complete perspective upon the adverse consequences flowing from the specific set of facts" developed in a copyright tying case. *Id.*

In sum, Copyright Industry *Amici* ask this Court to issue a precedent-shattering advisory opinion without any predicate factual context or adjudication. We respectfully request that the Court decline the invitation, and expressly limit any holding to patent law.

II. Material Differences Between Copyrights and Patents Foreclose Treating the Presumption of Market Power As Though Identical Considerations Drive the Presumption in Both Copyright and Patent Cases

Although *Loew's* refers to the presumption of economic power in the case of both patent-tying and copyright-tying, *id.* at 45 and n.4, application of that principle to copyright-tying was both deliberate and based on an analysis of copyright policy itself, *Paramount Pictures*, 334 U.S. at 156-59. The same deliberation should guide any reconsideration of it. Moreover, substantial differences between patents and copyrights render tying analyses of patent markets inapposite to copyright markets.

A. Close market substitutes, common among patented products, are a rarity among copyrighted works

Inherent in the structure of patent protection is the possibility that if one person builds a patented mousetrap, another will build a better mousetrap without infringing the patent. Indeed, the entire basis for patent law is to encourage not only the patented innovation, but also the follow-on innovation intended to create something even better. Patents are intended to result in close market substitutes, each vying for the title of "the best" – a product so good that it can gain market dominance, even a lawful monopoly, on its own merits. But that is not the case for copyrights. It has never been an objective of copyright law to encourage authorship of "the best sonata," "the best movie of all time," or "the best novel" that can satisfy completely – or even for a period of years – the market demand for "sonatas," "movies" or "novels." To the contrary, rather than encouraging substitutes, copyright law encourages the exponential increase in diverse creations offered for cumulative selection from among a cacophony of expressive works of authorship.

Federal courts have recognized this lack of true substitutes. For example, a single television program was found to be "of a unique nature sufficient to give ABC a leverage to gain economic power over the tying product." *American Mfrs. Mut. Ins. Co. v. American Broadcasting-Paramount Theatres, Inc.*, 221 F. Supp. 848, 850 (S.D.N.Y. 1963). Economic measures for detecting "price elasticity" fail to capture the fact that market demand to hear The Beatles perform *Here Comes the Sun* will not be satisfied even by listening to a most satisfying rendition of the same song by a different group. (*See, e.g., Here Comes the*

Sun performed by various Cuban musicians on HERE COMES . . . EL SON: SONGS OF THE BEATLES . . . WITH A CUBAN TWIST, Panama Music & Screenworks (2000).) Both may give equal pleasure to the listener, but neither will substitute for the other.

Economists might argue that while it may be true that consumers generally will not flock to *My Dinner With Andre* just because of an increase in the ticket price for *E.T.* (*Syufy Enterprises v. American Multicinema, Inc.*, 793 F.2d 990, 994-95 (9th Cir. 1986), *cert. denied*, 479 U.S. 1031 (1987)), there will be some price at which consumers will no longer consider the expense a good value if other motion pictures have set a lower benchmark. But that is of no legal significance because having watched *My Dinner With Andre*, even if prompted by a bargain price of admission, will not diminish a pre-existing desire to watch *E.T.* Similarly, regardless whether *Getting Gertie's Garter* is tied to *Gone With The Wind*, or vice versa (*Loew's*, 371 U.S. at 48 n.6), whatever independent demand there may have been for either work will not be diminished by virtue of having watched the other. What is more, satisfying demand for the tying *or* tied motion picture will not satisfy demand for any other motion picture, regardless whether they are considered competitive with either of them in economic terms. Thus, while various motion picture studios may compete for the top spot at the box office, or for the largest share of screens or video retailer buying dollars, the consumer choice to see one film over another is merely a reflection of the fact that a person can watch only one movie at a time. It is in the public interest, then, that theaters and video retailers remain free to offer as wide and varied a selection as they can to meet each one's perceived customer demand rather than be tied into

offering the "full line" from one studio to the exclusion of other selections that could have been offered, and that might have been more popular with the merchant's customer base.[6]

The difference between patent markets and copyright markets in terms of market substitutes is obvious: Desirable movies passed over on Friday night will remain desirable on Saturday morning regardless how satisfying the Friday night movie experience may have been. But the desirable mousetrap passed over in favor of another is no longer in competition for that mousetrap consumer.

B. Copyrights confer inherently broader market power than do patents

Some conclude, wrongly, that the U.S. Code makes patents superior, such as by granting an exclusive right to "use" the patented invention – a right missing from copyright law.[7] The true measure of the economic power is not in the scope of rights, but in the effect of those rights. For that measure, one need only consider what economic power the author or inventor would have in the absence of patent or copyright protection.

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[6] The *Loew's* Court made particularized observations with respect to copyrights. For example, it observed: "the distinctiveness of the copyrighted tied product is not inconsistent with the fact of competition, in the form of other programming material and other films, which is suppressed by the tying arrangements." 371 U.S. at 49.

[7] For example, it is never copyright infringement to perform a work privately, even if the performance is made from a stolen or infringing copy. Similarly, it is not copyright infringement to sneak into a theater without paying, regardless whether the theatrical performance was infringing.

Without patent protection, the inventor of a device or method may nevertheless achieve market dominance as against imitators. If the manufacturer has a better brand image, produces a better quality product, offers more competitive prices, has the most efficient manufacturing and distribution facilities, or enjoys superior goodwill among merchants, market dominance and even a monopoly may be achieved without the aid of a patent. The same is not true for copyrights.

Without copyright protection, it would be virtually impossible to develop any economic power in a work no matter how skilled or efficient the copyright owner may be – particularly today, when digital technology makes it economical for millions of people to reproduce or perform publicly any literary, musical or audiovisual work created by another. Absent the exclusive rights conferred by copyright, the author of a motion picture could never hope to derive any greater market share than anyone else, save perhaps at the moment of first publication, and would be powerless to affect the price or the supply of copies or public performances of the work. Perfect market substitutes would be available within a few seconds and a few "clicks" of a computer input device.

Derivative works – perhaps the closest market substitute for a copyrighted work after an exact reproduction – would flourish as other authors seek to improve upon or add new features to the original work. The only obstacle to creation of close or perfect market substitutes for a copyrighted work is the copyright itself. The competitive threat from one who produces a replica of a patented car will be far less than from one who reproduces a copyrighted photograph of a car. Accordingly, it is fair to conclude that

the lack of market substitutes derives entirely from the copyright, which alone bars competitive reproductions.

C. Patented inventions may comprise only a small part of the tying product, whereas copyrights are their heart

Successful patent tying may not owe its effectiveness to the strength of the patented invention embodied in the product but to the strength of the commodity itself. That is, a commodity embodying a patented invention may have substantially the same value even after the patented feature is removed. *Cf. U.S. Philips Corp. v. ITC*, No. 04-1361, 2005 U.S. App. LEXIS 20202 (Fed. Cir. Sept. 21, 2005) (unwanted non-essential patents added to patent pool at no additional cost). In the case of copyrights, in contrast, it is rare that the market value of the tangible medium in which the work is embodied will retain its value when it is no longer a "copy" (as defined in 17 U.S.C. § 101). If the motion picture is removed from a DVD or a reel of film, or the work itself is otherwise rendered inaccessible, the product essentially loses all of its value.

The "market" for a copyrighted work is derived from the expression itself – either in the licensing of the work to perform it publicly or to reproduce it into copies, or by the sale of copies. For example, when a theater obtains the right to perform the work publicly, the medium from which the performance is made – reels of film, digital copies, or even streaming – is virtually irrelevant. And although a consumer may prefer the medium of DVD to VHS cassette, it must still be a DVD or VHS "of the particular movie" to have any value to the viewer. The medium containing the copyrighted work is not the market – the "copy of the work" is the market. In the case of a patented movie

projector, in contrast, the object of the purchase is the projector itself, and not the particular patented inventions contained therein.

D. The impact on competition in the tied product's market is greatest when tying is achieved through copyright

A classic example of patent tying involves tying a product used *in conjunction with* the patented product. Be it tying copyrighted films to the patented film projector (*Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917)), salt tablets to a patented machine for depositing them (*Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942)), or replacement parts and services to a patented device (*Eastman Kodak Co. v. Image Technical Servs.*, 504 U.S. 451 (1992)), there is a plausible argument that the tie may, under the right set of facts, provide countervailing benefits. *See, e.g., Fortner Enterprises, Inc. v. United States Steel Corp.*, 394 U.S. 495, 514 n.9 (1969) (White, J., dissenting). These considerations do not apply to copyright leveraging, which reaches well beyond the copyrighted work. It does not enhance the functionality or consumer value in the tying product at all. The sole function of the tie is to require prospective purchasers of copies or licenses to choose the tied product over other options (or to give up nonexclusive rights), not because of any added value resulting from the tie, but because of the strength of the tying product to force that choice.

Classic copyright tying cases show no "value added" for the tying product, the tied product or the bundle. (Consumer response to the bundle offered as a competitive *option* is proof enough of its value, or lack thereof.) The only added value to the tied product is from the surplus

value of the tying product used to force acceptance of the undesired tied product, or acceptance of less favorable terms. *See, e.g., Paramount Pictures,* 334 U.S. 131 (leveraging the public performance license in a desired copyrighted work to sell performance licenses for less desirable works), *Loew's*, 371 U.S. 38 (1962) (same); *MCA Television Ltd. v. Public Interest Corp.*, 171 F.3d 1265 (11th Cir. 1999) (*expanding* the *Loew's* principle to address leveraging the license to perform the desired copyrighted work to gain better financial terms in the licensing of a separate work *also desired*).

Building on this Court's example in *Loew's*, 371 U.S. at 48 n.6, though there may be a limit to how much even a monopoly market will allow for a license to publicly perform *Gone With The Wind* (or for a ticket to be charged by the licensee for a place in the audience), tying to it a less desirable film like *Getting Gertie's Garter* adds nothing to the quality of *Gone With The Wind*, provides no better consumer experience when watching it, and instills in *Gone With The Wind* no greater literary, artistic, or any other public benefit contemplated by the copyright clause of the Constitution. In like manner, the literary or artistic quality of *Getting Gertie's Garter* is not improved.

In short, leveraging a *patented* product arguably may not impact the market for the tied product. Leveraging a *copyrighted* work such as through block-booking or line-forcing, in contrast, forecloses the option of weighing the relative merits of dedicating a screen, shelf space, or investment dollars in the tied work compared to other works competing for screens, shelf space, or dollars.

E. Copyright industries are uniquely positioned for "class leverage" and "hit leverage"

Patent-tying cases typically involve a single patented product used for tying. The patentee might market few products other than the tying one, and the tie is generally intended to reach only a market relating to the tied product itself. Copyright-tying cases, in contrast, typically involve a "practice" of tying that goes beyond any specific copyrighted work used as the tying product, and just as typically involve tying other works owned by the same company. The phenomena of "class-tying" and "hit-tying" are unique to copyright and have greater impact than the sum of the individual works.

Class leverage. Even where no specific work is involved in the tie, the most desired works (referred to in the motion picture and home video industries as "the 'A' titles") may, as a class, be leveraged into greater economic power in the less desirable "'B' movies" by the same copyright owner. *See, e.g., Syufy Enterprises*, 793 F.2d at 994-95 (jury could reasonably have concluded that "the industry anticipated top-grossing films were not in substantial competition with other films," *id.* at 995). Large enterprises that continually acquire or produce a variety of copyrighted works anticipate which ones will be the most desirable or just marginal, and can, if given rein, tie one class to another (such as in full-line forcing). The buyer of a particular company's products might be willing to pass on an individual tying work, but cannot reasonably pass on an entire "A" list of titles from that company.

Hit leverage. Copyright Industry *Amici* acknowledge that some of their works may be strong enough to confer market power, but insist that they represent too small a

percentage of the total to be of any significance. Brief of Copyright Industry *Amici* at 28. This observation misses the "hit-tying" power evident in the entertainment industry. Whether a particular work itself is of lasting stature, such as *Gone With The Wind*, or is simply one of the latest box office hits that will be forgotten by the following summer, the entertainment industry remains a hit-driven industry in which retailers and theatrical exhibitors must have available a core selection of the "hit" films just to remain competitively viable. A major copyright holding company would always have a "hit" or two available to drive the lesser films at any given moment, if tying were permitted.

F. Disparate terms of exclusive rights yield different economic consequences

A patent is granted for a term of 20 years. 35 U.S.C. § 154(a)(2). Copyright terms are for the life of the author plus 70 years (17 U.S.C. § 302(a)), or in the case of anonymous works or works for hire, 95 years from publication (17 U.S.C. § 302(c)). The patents that average people see come into being during childhood will come to an end during the prime of their lives. The copyrights that average people see come into being during childhood will likely remain copyrighted for the remainder of their lives. Thus, in terms of the economic impact on human lives, an economist's calculation that a patent tie will cease to exist once the patent is lost is meaningless when applied to copyrights.

III. The Purposes Of Patent And Copyright Law Differ Dramatically In Relation To Non-Economic Factors

Economists critical of the presumption of economic power for tying patents explain the potential value of various tying arrangements in purely economic terms. That perspective has limited bearing on the main public policy aim of copyright law. "Because copyright law ultimately serves the purpose of *enriching the general public through access* to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible." *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527 (1994) (emphasis added).

A. The exclusive rights are different

The patentee is given the exclusive right to "use" the patented invention, 35 U.S.C. § 271(a), and the patent can be enforced against anyone owning the patented product. Copyright law, in contrast, is replete with restrictions against the copyright holder, limiting the exclusive rights to a very narrow set of uses. Very few rights extend to the product embodying the copyrighted work. The Copyright Act draws a sharp distinction between the rights in the copyright and the rights in the copy, 17 U.S.C. § 202, and the *only* right granted to copyright owners over the tangible non-infringing copy of a motion picture survives only so long as the copyright owner owns it. 17 U.S.C. § 109(a). Similarly, the right to perform a work publicly does not extend so far as to control who can join the audience for the performance.

All copyrights are established as inferior – "subject to" – the rights reserved by law to nonexclusive use of the

public. 17 U.S.C. § 106.[a] But it is incorrect to conclude that these limitations make copyrights "weaker" than patents (such that whatever rules apply to patent law may as well apply to copyright law without further thought). The reverse is true. Because patents are so broad, they leave relatively little "use" beyond the exclusive control of the patentee. The realm in which the tying mischief can be exercised is much smaller. Indeed, the tie may be used as leverage to enhance the value of the tying product more readily than to undo the limitations on the patent itself.

Copyright law, in contrast, contains limitations inherent in the copyright grant. Some are statutory, while the First Amendment requires others. *Eldred v. Ashcroft*, 537 U.S. 186, 219 (2003) ("copyright law contains built-in First Amendment accommodations").[b] Consequently, ties

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[a] "[T]he definition of exclusive rights in § 106 . . . is prefaced by the words 'subject to sections 107 through [122].'" *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 447 (1984) (emphasis added); *accord* H.R. Rep. No. 94-1476, at 61 (1976) ("[E]verything in section 106 is made 'subject to sections 107 through [122]' and must be read in conjunction with those provisions.").

[b] This Court has called for keen awareness of the special "power of evil" in the wielding of economic power to restrain freedom of speech. Although *Motion Picture Patents Co.*, 243 U.S. 502, is generally viewed as a patent-tying case (the tying product was a patented film projector), the Court was particularly troubled by the fact that the tied products were expressive materials:

> A restriction which would give to the plaintiff such a potential power for evil over an industry which must be recognized as an important element in the amusement life of the nation . . . is plainly void, because wholly without the scope and purpose of our patent laws *and because, if sustained, it would be gravely injurious to that public interest,* which we have seen is more a favorite of the law than is the promotion of private fortunes.

(Continued on following page)

in copyright cases are more likely to be used both as a tool for increasing demand for the tied product *and* for casting off the limitations Congress and the Constitution have imposed. This is particularly true in this "digital" era in which technological measures can be used to suppress competition.

To give but one example, the copyright owner who conditions the sale of a motion picture on the buyer's agreement to waive Section 109 rights eliminates competition in the secondary market for the same work. Economists may attempt to "measure" the impact on competition in the used, gift and rental markets, and they may well conclude that one publisher is more competitive vis-à-vis another publisher because its higher profits in the primary market will offset the loss of original sales that supply the secondary market. Such cold economic calculus cannot, however, quantify the losses to the individuals that depend upon secondary markets for copyrighted works as much as they do secondary markets for shoes and clothing. And, it is not just economic loss that these less fortunate suffer. Their loss is measured in impairment of the very constitutional basis for the copyright grant – to advance the progress of science and art.

Id. at 519 (emphasis added). Clearly, the analysis went well beyond the kind of narrow focus on economic theory being urged upon the Court in this case.

B. This Court's precedents draw more on fundamental principles of copyright law than on pure economic analysis

Loew's and the "long line" of cases relied upon by this Court in *Loew's*, 371 U.S. at 45-46, relied little on the "market power" concepts that have developed in tying cases not involving patents or copyrights. Rather, they relied on a more basic principle – one in common with much of the "misuse" jurisprudence: that when exclusive rights are granted by law (regardless of the economic value of those rights), any leveraging of the exclusive rights granted to gain power, influence or control over matters resting beyond the exclusive rights are just as odious to antitrust law as had the monopoly been unlawfully acquired.

Thus, this Court's jurisprudence reveals not so much the hurried and untested creation of a presumption of market power, as critics contend, as a realization that proof of any market power is largely unnecessary when tying of copyrights is involved. Whether publishers of economically valuable motion pictures with a large market share engage in block-booking that forecloses access by smaller filmmakers to a theater's screens, or whether a budding new filmmaker distributes its single little-known motion picture on a DVD only to buyers who agree to give up their right under law to lend, rent or resell it (and thus destroy competition from the secondary markets for that single, economically insignificant title), the antitrust injury is identical in all respects but degree. The injury lies not in questions of measurable injury to competition so much as in the fact that Congress said, "You may have these rights, but no more," and the grantee took those granted rights and leveraged them to obtain on the open

market the rights denied by Congress.[10] That is, the limited rights are leveraged to circumvent the limits.

But are patents and copyrights the same in this regard? Perhaps one meritorious argument against applying the presumption in a patent-tying case is this: In some cases, what can be fairly said to be leveraged by the tie is not the patent or a "patented product," as such, but an ordinary commodity that happens to have a patented invention embodied in it. Such argument, when applied to copyrights, is untenable. Under copyright law, the tying product will always be either a license for the "bare" right, such as the right to perform publicly an audiovisual work, or it will be a "copy or phonorecord," which are defined as a material object embodying the copyrighted work.

The observations in this section demonstrate that patents are more likely to fuel competition consistent with patent law, given that the reward to the innovator is intended to drive the desire to "build a *better* mousetrap." Within the market for ink and printing devices, the selection of the single "best" invention will satisfy the consumer to the exclusion of the runners up. Copyright protection, in contrast, is not intended to fuel any competitive advantage against other works because copyright law encourages *diversity* and *multiplicity* of expression. Copyright protection is limited to protecting certain types of

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[10] The first four lines of the poem *Lester*, by Shel Silverstein, express a logic against leveraging limited rights into unlimited ones that even a child can understand:

> Lester was given a magic wish
> By the goblin who lives in the banyan tree,
> And with his wish he wished for two more wishes –
> So now instead of just one wish, he cleverly had three.

exploitation of the individual copyrighted work, and no more, *without* excluding other works.

CONCLUSION

For the foregoing reasons, *Amici Curiae* respectfully request that if this honorable Court chooses to relax the application of the *Loew's* principle in patent-tying cases, it should make clear that the presumption's continued viability in copyright-tying cases remains untarnished.

Respectfully submitted,

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ILLINOIS TOOL WORKS INC., *et al.*,

Petitioners,

v.

INDEPENDENT INK, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF PETITIONERS

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STATEMENT OF INTEREST OF AMICUS CURIAE

This brief *amicus curiae* is submitted in support of petitioners by the New York Intellectual Property Law Association (the "NYIPLA" or the "Association"), a professional association of more than 1,300 attorneys whose interests and practices lie in the area of patent, copyright, trademark, trade secret and other intellectual property law.[1]

NYIPLA members include in-house attorneys working for businesses that own, enforce and challenge patents as well as attorneys in private practice who represent both patent owners and accused infringers. NYIPLA members represent both plaintiffs and defendants in infringement litigation and also regularly participate in proceedings before the United States Patent and Trademark Office ("PTO"), including representation of applicants for patents and parties to interferences. A substantial percentage of NYIPLA members participate actively in patent litigation.

Patent litigators must keep themselves continuously apprised of the antitrust and patent misuse consequences of all controlling precedents of this Court as interpreted by the federal appellate courts. Those precedents include pronouncements regarding the legality of particular license terms and the permissibility of refusals to license and the initiation and settlement of patent litigation – all of which must be considered so that their clients can be counseled accurately, expeditiously and effectively.

Since its founding in 1922, the NYIPLA has committed itself to maintaining the integrity of United States patent law, and to the proper application of that law. Nowhere is the rational and considered application of patent law principles more important to the economy of the United

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1. Pursuant to SUP. CT. R. 37.6, the NYIPLA and its counsel represent that they have authored this brief in whole, and that no person or entity other than the *amicus curiae* and its counsel have made a monetary contribution to the preparation or submission of this brief. Pursuant to SUP. CT. R. 37.3, both petitioners and respondents have consented to the filing of this brief and documents reflecting such consent have been filed with the Clerk of this Court.

States than at the interface between those principles and the principles embodied in the antitrust laws.[2]

One area of this critical interface in which counseling vigilance has proved particularly important has been in the area of "tying" arrangements, including that subcategory of such arrangements involving alleged ties between patent claims and nonstaple goods usually referred to under the rubric of "contributory infringement". The Association has maintained a particularly strong interest in this area for many years and, as this Court recognized in *Dawson Chemical*,[3] actually drafted the original 1952 legislation, now embodied in 35 U.S.C. § 271(d),[4] in which Congress overruled the principle announced in the *Mercoid* cases.[5]

POSITION OF AMICUS REGARDING QUESTION PRESENTED

The question for determination on *certiorari* was articulated by the Court as follows:

> Whether in an action under Section 1 of the Sherman Act, 15 U.S.C. § 1, alleging that the defendant engaged in unlawful tying by conditioning a patent license on the licensee's purchase of a non-patented good, the plaintiff must prove as part of its affirmative case that the defendant possessed market power in the relevant market for the tying product, or market power instead is presumed based solely on the existence of the patent on the tying product.[6]

2. If any doubt on that score ever existed, it would have been obviated by the testimony given during the lengthy hearings held in early 2002 under the joint sponsorship of the Antitrust Division of the Department of Justice ("DOJ") and the Federal Trade Commission ("FTC"), the agencies charged with enforcement of the antitrust laws. FTC/DOJ, Public Hearings, *Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy* (2002), *available at* http://www.ftc.gov/opp/intellect/index.htm.

3. *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 204-5 (1980) ("*Dawson Chemical*"). At the time of the drafting activities and testimony referred to in *Dawson Chemical*, the Association was known as the New York Patent Law Association ("NYPLA").

4. 35 U.S.C. § 271(d) (2000).

5. *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944) ("*Mercoid I*"); *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944) ("*Mercoid II*").

The Association respectfully submits that market power may not be presumed from the existence of a patent and that proper resolution of the issue presented in this *certiorari* proceeding requires determination of whether the amendment resulting in Section 271(d)(5) as enacted by Congress in 1988[7] statutorily negated the rule permitting a presumption of market power from the mere existence of a patent for antitrust and patent misuse purposes as announced in another decision of this Court – *United States v. Loew's, Inc.*, 371 U.S. 38 (1962) ("*Loew's*").

Insofar as pertinent to the arguments of the Association, the amended version of Section 271(d) reads as follows:

> (d) No patent owner . . . shall be denied relief or *deemed guilty of misuse or illegal extension of the patent right* by reason of his having done one or more of the following:
>
> (1) *derived revenue from* acts which if performed by another without his consent

6. Insofar as this formulation refers to tying "of a non-patented good", the Association assumes that, under the rule of *Dawson Chemical*, the Court intended that such good likewise would be "a staple article or commodity of commerce" within the meaning of 35 U.S.C. § 271(c). The Association also assumes that the Court's focus on Sherman Act Section 1 arises from those portions of the court of appeals panel decision which state (1) that the "district court granted summary judgment on plaintiff Independent's Sherman Act section 1 claim because Independent had failed to produce any evidence of market power over the tying product," *Indep. Ink, Inc. v. Ill. Tool Works, Inc.*, 396 F.3d 1342, 1344 (Fed. Cir. 2005)("Independent Ink"); and (2) that respondent had disclaimed reliance upon Section 3 of the Clayton Act (*Id.* at 1346 n.4). As a technical matter, a private action is brought "under" Section 4 of the Clayton Act, 15 U.S.C. § 15 (2000), to recover treble the damages suffered "by reason of" conduct which violates the antitrust laws – which, of course, include Section 1 of the Sherman Act.

7. Section 201 of Pub. L.. No. 100-703, 102 Stat. 4674 (1988).

would constitute *contributory infringement* of the patent;

(2) *licensed* or authorized another to perform acts which if performed without his consent would constitute *contributory infringement* of the patent;

(3) *sought to enforce his patent rights against* infringement or *contributory infringement;*

(4) *refused to license* or use any rights to the patent; or

(5) *conditioned* the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, *unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.*

35 U.S.C. § 271(d) (2000) (emphasis supplied).

The Association respectfully submits that, just as this Court found in *Dawson Chemical* that the original 1952 enactment of the first three subparagraphs of Section 271(d) reflected a clear Congressional intent to overrule the *Mercoid* decisions, the 1988 amendment which resulted in Section 271(d)(5) reflected a clear Congressional intent to overrule the long moribund *Loew's* holding which many observers feared might have been resurrected by *dicta* in the opinion of the *Jefferson Parish* majority.[8]

Accordingly, the Association believes the question framed by the Court can and should be disposed of completely based solely upon Section 271(d)(5) of the Patent Act, 35 U.S.C. § 271(d)(5), a 1988 amendment to the original 1952 enactment in which Congress legislatively overruled

8. *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984) ("*Jefferson Parish*").

whatever residual vitality this Court's *Loew's* presumption might have possessed in the area of patent tying.

The Association also agrees with and endorses the positions taken by petitioners,[9] and by the *amici* supporting the grant of *certiorari*,[10] to the effect that the precedental value of *Loew's* has been completely undermined both by this Court's *Walker Process* decision,[11] and by the attenuation of the *per se* rule previously applied to staple product ties in such post-*Loew's* non-patent decisions of this Court as *Fortner II*.[12]

The Association also believes that petitioners and the *amici* have correctly formulated some of the important policy arguments in favor of abandoning the *Loew's* presumption. Arguably, still another justification for abandonment of the evidentiary presumption of *Loew's* may be discerned in this Court's abrogation of the licensee estoppel doctrine in *Lear v. Adkins*.[13] At least part of this Court's willingness to endorse both evidentiary presumptions regarding relevant antitrust markets and theories of *per se* misuse prior to June of 1969 probably can be attributed to a desire to facilitate the ability of patent licensees to insinuate themselves within one of the recognized exceptions to the judicial doctrine of licensee estoppel.[14]

9. In the "Petition For A Writ Of Certiorari" of April 5, 2005 ("Petition").

10. Such *amici* include the American Bar Association ("ABA"), the Intellectual Property Owners Association ("IPO"), the American Intellectual Property Association ("AIPLA"), and Pfizer Inc. ("Pfizer").

11. *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965) ("*Walker Process*").

12. *United States Steel Corp. v. Fortner Enters., Inc.*, 429 U.S. 610 (1977) ("*Fortner II*").

13. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969) ("*Lear v. Adkins*").

14. As discussed in Point II.B.2 of the Argument, the pre-*Lear* tension between the Court's reluctance unnecessarily to extend the scope of its *per se* rules and its desire to facilitate challenges to invalid patents

(Cont'd)

Because the Association concludes that Section 271(d)(5) itself statutorily overruled *Loew's* and must control disposition of this proceeding, it cannot directly endorse the conclusion of petitioners and the *amici* that it is necessary for this Court to overrule that precedent for purposes of this case. Since Section 271(d)(5) only exempts patent-based misuse and antitrust claims, however, the Association agrees that it would be desirable for the Court to explicitly overrule *Loew's* and thereby foreclose assertion of any market power presumptions by creative future infringers who claim that copyrights or other non-patent classes of intellectual property have been employed to tie staple goods.

THE DISTRICT COURT AND PANEL DECISIONS

The Association endorses and adopts the fair and accurate presentation of the operative facts set forth in the Petition. It is believed, however, that some brief additional explication of the reasoning of the district court and the court of appeals panel might assist the Court in assessing the context in which the issues were addressed below in four specific areas: (1) the shortcomings in the panel's analysis of Section 271(d)(5); (2) the complete absence of any finding below that the allegedly tied ink represented a staple commodity; (3) the degree to which the panel ignored the settled Federal Circuit view of *Loew's*; and (4) the concessions made by the panel that the exclusionary potential of the claims of petitioners' patent were narrowly limited in comparison to the available substitutes for the patented ink jet system and supply apparatus in any of the antitrust product markets in which the patented systems and devices might be alleged to compete.

(Cont'd)

under the so-called "antitrust" exception to the estoppel doctrine by those with the greatest economic incentive to do so may be best exemplified by comparing the majority and dissenting opinions in *Automatic Radio Mfg. Co., Inc. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950) ("*Automatic Radio*").

A. The Panel's Insufficient Discussion Of Section 271(d)(5)

In the district court, petitioners had argued Professor Areeda's interpretation of Section 271(d)(5) as reflecting a Congressional intent sufficiently broad to effectively abolish "any presumption of market power for patents or patented tying products in antitrust suits as well as in patent misuse doctrine."[15] The district court found, however, that it was not necessary to resolve the scope of the Congressional exemption "for purposes of deciding" the summary judgment motions in favor of petitioners. *Id.*

For reasons that are not apparent, the impact of Section 271(d)(5) was not directly addressed before the court of appeals by either petitioners or respondent, and the panel apparently never focused either (a) upon the actual operative charging language of the preamble which had been enacted in 1952, or (b) upon the same Congressional deliberations regarding that original enactment that had been exhaustively analyzed in *Dawson Chemical*. Based upon its review of the more limited 1988 legislative history, the court of appeals panel concluded that "Congress has declined to require a showing of market power for affirmative patent tying claims as opposed to patent misuse defenses based on patent tying. Proof of actual market power is required to establish a patent misuse defense based on patent tying." 396 F.3d at 1349 n.7.

The Association respectfully submits that the panel erred both (a) by adopting the precise reading of Section 271(d)(5) which Professor Areeda had warned would be "anomalous", and (b) in its determination that in enacting Section 271(d)(5) in 1988 "Congress was not attempting to change existing law." *Id.* These conclusions fly directly in the face of the fact that, like *Mercoid II*, *Loew's* involved affirmative claims under the antitrust laws. In enacting Section 271(d)(5) Congress clearly intended to undo all of the mischief that it felt might arise based upon the *Jefferson*

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15. *Independent Ink, Inc. v. Trident, Inc.*, 210 F. Supp. 2d 1155, 1166 n. 11 (C.D. Cal. 2002) (the "district court decision"), *citing* PHILIP E. AREEDA ET AL., ANTITRUST LAW ¶ 1737c (1996).

Parish majority's suggestion that this Court might continue to follow *Loew's*.

B. The "Tied" Ink Was Not Held To Be A Staple Commodity

The panel accepted respondent's characterization of the terms of the OEM licenses as "tying" based merely upon its conclusion that the allegedly tied ink was not patented. 396 F.3d at 1345. There was no separate finding below that the ink was a "staple article or commodity of commerce" as 35 U.S.C. § 271(c) and the rule of *Dawson Chemical* require.[16]

C. The Panel Ignored The Settled Federal Circuit View Of Loew's

Anyone reviewing the decision below might justifiably assume that the panel had decided a matter of first impression. In point of fact, however, at least eleven separate decisions of the Court of Appeals for the Federal Circuit previously had expressly or impliedly rejected application of the market power presumption of *Loew's*.[17]

16. Indeed, both expert economic testimony in the district court and documents that were before the court of appeals panel strongly suggest that the "tied" ink was actually a "nonstaple" commodity. If the summary judgment is not reinstated, therefore, on remand the district court might well dismiss pursuant to Section 271(d)(3).

17. *In re Independent Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325 (Fed. Cir. 2000) ("*Xerox (ISO)*") ("A patent alone does not demonstrate market power"); *C.R. Bard, Inc. v. M3 Systems, Inc.*, 157 F.3d 1340, 1368 (Fed. Cir. 1998) ("It is not presumed that the patent-based right to exclude necessarily establishes market power in antitrust terms"); *Schlafly v. Caro-Kann Corp.*, No. 98-1005, 1998 WL 205766, at *7 (Fed. Cir. 1998) (unpublished) ("Mere possession of a patent, or a family of patents, does not establish a presumption of antitrust market power"); *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 872 (Fed. Cir. 1997) ("violation of the antitrust laws always requires . . . zmarket power in a defined relevant market (which may be broader than that defined by the patent)"); *F.B. Leopold Co. v. Roberts Filter Mfg. Co., Inc.*, Nos. 96-1218, 96-1278, 96-1456, 96-1471, 1997 WL 378004 at *6 (Fed. Cir. 1997) (unpublished) ("Before the district court, Roberts presented no evidence to establish a relevant market in which Leopold might have market power"); *Chiuminatta Concrete Concepts, Inc. v. Target Prods., Inc.*, (Cont'd)

In each of those eleven decisions, which date from both before and after enactment of Section 271(d)(5) in 1988, the panels had painstakingly evaluated the pertinent decisions of this Court, including specifically the *Walker Process* and *Fortner II* lines of precedent, and could perceive no justification for applying the *Loew's* presumption in the face of such a torrent of contrary authority.

(Cont'd)

No. 93-1295, 1994 WL 48547 (Fed. Cir. 1994) (unpublished), *aff'g per curiam, Chiuminatta Concrete Concepts, Inc. v. Target Prods., Inc.*, 1992 WL 465720 (C.D. Cal 1992) ("A patent does not of itself establish a presumption of market power in the antitrust sense" and, accordingly, fact that allegedly "tying" skid plates were patented had not discharged burden of establishing "sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product"); *Abbott Labs. v. Brennan*, 952 F.2d 1346, 1354 (Fed. Cir. 1991) ("A patent does not of itself establish a presumption of market power in the antitrust sense . . . . The commercial advantage gained by new technology and its statutory protection by patent do not convert the possessor thereof into a prohibited monopolist."); *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661 (Fed. Cir. 1986) (affirming both holding of *per se* patent-based tying misuse two years before enactment of Section 271(d)(5) and dismissal of antitrust counterclaim predicated upon same alleged tie because accused infringer failed to establish "sufficient economic power in the tying product and an effect on a 'not insubstantial' amount of commerce in the tied product"); *Windsurfing Int'l, Inc. v. AMF. Inc.*, 782 F.2d 995, 1001-02 (Fed. Cir. 1986) (noting two years before the enactment of Section 271(d)(5) that "[r]ecent economic analysis questions the rationale behind holding any licensing practice per se anticompetitive" and dismissing patent misuse charge predicated on alleged trademark tie-out because "[t]o sustain a misuse defense involving a licensing arrangement not held to have been per se anticompetitive by the Supreme Court, a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market"); *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 875 (Fed. Cir. 1985) (If district court had discerned "bad faith, it would have had to make specific findings defining the relevant geographic and product markets, and specifying the market share possessed by Loctite in the relevant market"); *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1367 (Fed. Cir. 1984) ("patent rights are not *legal monopolies* in the antitrust sense of that word") (emphasis in original).

D. Discussion Of The Patent Claims And Markets

Petitioners' United States Patent No. 5,343,226 ("the '226 patent") contains one narrowly defined claim to an "impulse ink jet system" and three similarly narrow claims to embodiments of the "ink supply apparatus" for the claimed system. According to the court of appeals panel, the point of novelty for the four claims of the '226 patent involved use of a "hand actuated peristaltic pump" which represented a fourth solution to the problem of facilitating "pressure in one direction, forcing ink towards the printhead, without sucking the ink back when that pressure is released." *Independent Ink*, 396 F.3d at 1344-45.

There is no indication in the panel's opinion as to the economic significance of petitioners' advance over the three described prior art mechanisms, and no indication as to which of those alternatives are used by the "two other competitors" of petitioners who "have designed printheads that can print bar codes on kraft paper." *Id.* at 1352.

Finally, the panel gave no consideration to whether there was any cross-elasticity of demand as between use of the "impulse ink jet" direct printing systems to which the claims of the '226 patent are directed and the bar code labeling systems which the testimony indicated could be used as "substitutes" for the "patented technology." *Id.*

SUMMARY OF ARGUMENT

The NYIPLA is mindful of this Court's directive that a brief for *amicus curiae* should be limited to "relevant matter not already brought to its attention by the parties." SUP. CT. R. 37.1.[18]

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18. The Association has carefully reviewed the Petition and the briefs of the *amici* supporting the grant of *certiorari*, and every effort has been made to comply with the spirit of Rule 37.1 by minimizing to the extent possible any overlap in factual subject matter and argumentation between this brief and those additional submissions.

In Point I.A of the Argument, the Association presents a non-duplicative argument regarding the plain meaning of Section 271(d)(5).

In Point I.B of the Argument, the Association presents another non-duplicative argument to the effect that the legislative history of the original enactment of Section 271(d) in 1952, as previously reviewed in *Dawson Chemical*, confirms that Congress clearly intended to undo both the misuse and antitrust implications of the *Mercoid* decisions.

In Point I.C of the Argument, the Association presents another non-duplicative argument to the effect that the 1988 enactment of Section 271(d)(5) inarguably was intended to legislatively overrule the presumption of market power articulated in *Loew's* which the *Jefferson Parish* majority suggested might remain viable; that the unchanged preamble of Section 271(d) effectively guaranteed that the presumption would be overruled for both antitrust and misuse purposes; and that, contrary to the belief of the court of appeals panel, the failure of Congress to enact the statute contemplated by an earlier Senate bill is irrelevant to the proper resolution of the question presented in this Court.

In Point II.A of the Argument, the Association endorses the arguments and conclusions of petitioners and the *amici* regarding the necessity to overrule *Loew's* both (1) as a result of the Court's subsequent attenuation of the *per se* rule in the non-patent tying cases exemplified by *Fortner II*; and (2) as a result of the Court's *Walker Process* determination that market power in patent-antitrust cases must be assessed by comparing the exclusionary power of the patent claims with the properly defined relevant product market.

In Point II.B of the Argument, the Association both endorses the policy arguments previously advanced by petitioners and the *amici*, and presents a non-duplicative policy argument predicated upon the Court's *Lear v. Adkins* decision.

ARGUMENT

POINT I

SECTION 271(d)(5) OF THE PATENT ACT COMPLETELY ABROGATED THE RULE OF *LOEW'S*

As previously noted, neither petitioners nor respondent directly addressed the issue of Section 271(d)(5) in their court of appeals briefs. Respondent Independent Ink's initial brief, however, did quote extensively from a footnote in a California district court decision,[19] which in turn had both cited and adopted the reasoning of a law review article (the "Calkins article"),[20] which had rejected the proposition that Section 271(d)(5) could be read to provide antitrust immunity to patentees who lack "market power in the relevant market for the patent or patented product on which the license or sale is conditioned".

The Calkins article was itself sharply criticized in an important article by a nationally respected patent-antitrust practitioner and interface scholar (the "Hoerner article").[21] The Hoerner article reasoned that, by focusing exclusively upon the limited legislative history of the 1988 amendments themselves, the Calkins article had ignored both the plain meaning of the operative charging language in the section's preamble (which had remained unchanged since 1952), and the clear legislative history of that original enactment – the

19. *Grid Sys. Corp. v. Tex. Instruments, Inc.*, 771 F. Supp. 1033, 1037 n. 2 (N.D. Cal. 1991) ("*Grid Systems*"). Arguably, the *Grid Systems* holding contravened the Ninth Circuit's earlier decision in *Carpet Seaming Tape Licensing Corp. v. Best Seam, Inc.*, 616 F.2d 1133, 1143 (9th Cir. 1980).

20. Richard Calkins, *Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims*, 38 DRAKE L. REV. 175 (1988-89) (the "Calkins article").

21. Robert J. Hoerner, *Is Activity Within the Subsections of 35 U.S.C. § 271(d) Protected From a Finding of Antitrust Violation?*, 74 J. PAT. TRADEMARK OFFICE SOC'Y 283 (1992) (the "Hoerner article").

same legislative history which had been exhaustively reviewed by this Court in *Dawson Chemical*.[22]

Neither the Calkins article nor the court of appeals panel made any independent assessment of the actual operative charging language in the preamble of Section 271(d) which controls each of its five subsections including Section 271(d)(5). Moreover, neither the Calkins article nor the court of appeals panel made any attempt to determine whether the legislative history of the 1952 enactment considered by this Court in *Dawson Chemical* sheds any light on the appropriate interpretation of that operative language. Nevertheless, the Calkins article apparently represented the sole justification for the panel's conclusion that Section 271(d)(5) was not intended to and did not Congressionally overrule the presumption of *Loew's* whose continuing vitality had been suggested by the *Jefferson Parish* majority.

A. The Plain Meaning Of Section 271(d) Of The Patent Act Exempts The Conduct Described In Each Of Its Five Subsections From Both Charges Of "Misuse" And Charges Of "Illegal Extension Of The Patent Right" Which Must Include Antitrust Tying

The operative charging language in the preamble to Section 271(d) provides that no patent owner shall be *"deemed guilty of misuse or illegal extension of the patent right"* by reason of having done anything specified in the five enumerated subsections that follow (emphasis supplied). The Association respectfully submits that, as the Hoerner article first pointed out, the phrase "illegal extension of the patent right" certainly must be read as sufficiently broad to include charges of patent-based tying under the antitrust laws.

The necessity of reading the "illegal extension" language broadly to include antitrust tying is buttressed

22. Significant portions of Points I.A, I.B and I.C of the Argument are drawn directly from the approach taken by the Hoerner article.

by use of the disjunctive "or" to juxtapose "misuse" against such "illegal extension." This alternative formulation plainly militates against an interpretation of the "illegal extension" language as merely duplicative of "misuse". Under the precedents of this Court, a construction of a statute "that gives effect 'to every clause and word of [the] statute'" is preferred over one that does not. *Negonsott v. Samuels*, 507 U.S. 99, 106 (1993) (*quoting Moksal v. U.S.*, 498 U.S. 103, 109-110 (1990)).

Finally, reading the phrase "illegal extension of the patent right" to include antitrust tying charges accords fully with the principle that the exercise of rights authorized under the patent law cannot be found to violate the antitrust laws – a principle first definitively articulated by this Court in *United States v. United Shoe Machine Co.*, 247 U.S. 32, 57 (1918) ("*United Shoe*").

B. The Legislative History Of The Original 1952 Enactment Of Section 271(d) Highlights The Congressional Purpose Of Eradicating The Effects Of The *Mercoid* Decisions From Both The Defense Of Unenforceability And The Private Right Of Antitrust Recovery Under Clayton Act Section 4

In *Dawson Chemical*, this Court reviewed the purpose, legislative history and construction of the original Section 271(d) as enacted in 1952. The Court recognized that the statute had been designed to limit application of both the doctrine of patent misuse and the antitrust laws to the doctrine of contributory infringement and had Congressionally overruled this Court's two 1944 *Mercoid* decisions.

The *Mercoid* cases had effectively abolished the doctrine of contributory infringement by holding that the sale of non-patented goods could not be tied to a patented combination, even where the goods were not staple articles of commerce but had been manufactured solely to assist purchasers in

directly infringing the claims of the patent. Under the *Mercoid* cases, attempts to enforce a patent under the doctrine of contributory infringement would both represent *per se* misuse (*Mercoid I*) and provide the predicate for an antitrust violation (*Mercoid II*).

In *Dawson Chemical* this Court noted that

> [t]he principal sources for edification concerning the meaning and scope of § 271 . . . are the extensive hearings that were held on the legislative proposals that led up to the final enactment. In three sets of hearings over the course of four years, proponents and opponents of the legislation debated its impact and relationship with prior law.

448 U.S. at 204.

The history of the committee hearings, conducted in 1948[23],1949[24] and 1951,[25] was discussed at great length. *Id.* at 204-212. *See also* Hoerner article at 288-97.

The Association, which was then known as the NYPLA and had drafted the original bill, told the Committee that "the purpose of the proposal was to reverse the trend of Supreme Court decisions that had indirectly cut back on the contributory infringement doctrine." *Dawson*, 448 U.S. at 205 (citing 1948 Hearings at 4). More specifically, the bill

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23. Contributory Infringement in Patents, Definition of Invention: Hearings Before Subcomm. on Pat., Trade-Marks, and Copyrights of the H. Comm. on the Judiciary, 80th Cong. (1948) ("1948 Hearings").

24. Contributory Infringement: Hearings on H.R. 3866 before Subcomm. No. 4 of the H. Comm. on the Judiciary, 80th Cong. (1949) ("1949 Hearings").

25. Patent Law Codification and Revision: Hearings on H.R. 3760 Before Subcomm. No. 3 of the H. Comm. on the Judiciary, 82d Cong. (1951) ("1951 Hearings").

had been drafted in order to overrule the *Mercoid* cases. *See* 1948 Hearings at 4-6.

The Hearings also reveal that the committee understood completely that, under the *United Shoe* principle, making enforcement of patents under the contributory infringement doctrine permissible under the patent law necessarily would have the effect of precluding application of the antitrust laws to those same activities. Indeed, as this Court perceived in *Dawson Chemical*, representatives of the DOJ "vigorously opposed" the draftsmen's desire for such a statutory "restriction on the doctrine of patent misuse that would enable patentees to protect themselves against contributory infringers". 448 U.S. at 204.

The DOJ representatives at the hearings included Roy C. Hackley, Jr., Chief of the Patent Section in 1948 and John C. Stedman of the Antitrust Division in 1949. 1948 Hearings at 65-69; 1949 Hearings at 50-60, 63-64, 75-77. In 1951, the DOJ was represented by Wilbur L. Fugate of the Antitrust Division and T. Hayward Brown of the Patent Litigation Unit. 1951 Hearings at 93-98, 162-169, 207-08. Peyton Ford, Deputy Attorney General, also appeared by letter. *Id.* at 206.

In the DOJ's final letter to the Committee in 1951, Mr. Fugate explained that "the Department of Justice objects to . . . [the bill] since its effect might be to carve out an area in which the antitrust laws would not operate." 1951 Hearings at 207. In the 1949 Hearings, Mr. Stedman had explained that, if enacted, Section 271(d) would effect a *pro tanto* amendment to the antitrust laws under the rule of *United Shoe*, stating that:

> The doctrine would probably be invoked that if something is specifically authorized by the patent laws, then it does not constitute a violation of the Clayton Act. . . . [T]he effect of passing this bill might be to *carve out an area in which the antitrust laws would not operate*, even though the specified acts would be a misuse under the present statute. The statute would then say that such acts were no longer a misuse. That is what we are concerned about.

1949 Hearings at 57 (emphasis supplied).

In the DOJ's view, the bill would "obviate particular acts, asserted to be contributory infringement, as being construed as violative of the antitrust laws." 1948 Hearings at 68 (Hackley) and "unwarrantedly limit the application of the antitrust laws." 1949 Hearings at 56 (Stedman). The DOJ preferred the existing rule that "when the contributory infringement doctrine comes into conflict with the misuse doctrine, as exemplified by the Clayton Act and the Sherman Act, then the misuse doctrine shall control." 1949 Hearings at 54. The DOJ also believed that "[t]he [misuse] doctrine is a most important factor in the enforcement of the antitrust laws with respect to tying arrangements and the Department is opposed to any impairment thereof." 1951 Hearings at 97 (Brown). Misuse "is, in the opinion of the Department, a salutary principle which is important in the enforcement of the antitrust laws." 1951 Hearings at 206 (Ford).

The proponents of the bill agreed fully with the DOJ's position that the proposed amendment of the patent law to authorize enforcement of patents under the doctrine of contributory infringement would create an exemption to the antitrust laws as well. As the proponents told the Committee, the bill:

- "strikes a proper balance between the field of patent law on the one hand and the field of general law in which antitrust laws operate on the other hand." 1948 Hearings at 11 (statement of Giles S. Rich, representing NYPLA).
- "will eliminate a lot of headaches and a lot of alleged violations of the antitrust laws" 1949

Hearings at 30 (statement of Giles S. Rich, representing NYPLA).

- "will be a help not only to the patentee but to the Antitrust Department because in this branch of patent law at least it draws as distinct a law as you can in language . . . [I]t shows the Department of Justice whom they aught to prosecute and shows the patentee what he may safely do to enforce the rights that the Government has given him." 1948 Hearings at 16 (statement of Robert W. Byenly, Chairman, Comn. on Pat., Ass'n of the Bar of the City of New York).

- "draws a sharp line of demarcation between the patent law and the antitrust law. This will enable patentees to protect their property without inadvertent violation of the Sherman Act, and will also simplify the work of the Department of Justice by defining a field in which restraint of trade cannot be justified under the patent law." 1948 Hearings at 19-20 (statement of Ass'n of the Bar of the City of New York).

In its 1980 *Dawson Chemical* decision, this Court expressly recognized that, although the "policy of free competition runs deep in our law", "the policy of stimulating invention that underlies the entire patent system runs no less deep." 448 U.S. at 221. In the Court's view, moreover, there was no need to determine "whether the principles of free competition could justify" the potential reduction of the incentive to invent by complete eradication of the contributory infringement doctrine because "Congress' enactment of § 271(d) resolved these issues in favor of a broader scope of patent protection." *Id.* at 233.

C. Congress Plainly Intended Section 271(d)(5) To Overrule The *Loew's* Presumption As Discussed In *Jefferson Parish*, And The Failure Of Congress To Enact The Senate Bill Was Irrelevant

1. The *Loew's* Presumption Was Explicitly Targeted By The 1988 Amendment Resulting In Section 271(d)(5)

Just as the original 1952 enactment of Section 271(d) legislatively overruled both the antitrust and misuse aspects of the *Mercoid* cases, the 1988 amendment adding Section 271(d)(5) must be read to have legislatively overruled the market presumption of *Loew's* for both misuse and antitrust purposes.

The 1952 and 1988 enactments both represent reactions to decisions of this Court which the Patent Bar viewed as sufficiently threatening to the incentive to innovate that an appropriate Congressional response was sought and obtained.

The Senate originally took up the bill which eventually resulted in Section 271(d)(5) because of industry concern over the *dictum* from *Jefferson Parish* in which the majority cited *Loew's* for the proposition that "if the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." 466 U.S. at 16.

The Senate also considered a statutory modification of sufficient breadth to alter the copyright law in similar fashion because of this Court's denial of certiorari in *Data General*.[26] As is clear from Senator Leahy's comments in the *Congressional Record*, the Senate bill addressed the fact that

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26. *Digidyne Corp. v. Data General Corp.*, 734 F. 2d 1336 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985) ("Data General").

"courts have presumed market power from the existence of a patent or copyright" and cited *Loew's* for the proposition that courts "have been applying the presumption at least as far back as 1962". 134 Cong. Rec. S. 14,435 (daily ed., Oct. 4, 1988) (statement of Sen. Leahy).

According to Senator Leahy, the Senate bill's "elimination of the presumption of market power is intended to reduce the likelihood that antitrust claims will be brought against intellectual property owners who should not be subject to antitrust liability". *Id.*

2. The Abandonment Of The Original Senate Bill Did Not Affect The Antitrust Consequences Of Section 271(d)(5)

Using reasoning derived from the Calkins article, as quoted by the district court in *Grid Systems* and cited by respondent to the court of appeals, the panel concluded in a footnote to its opinion that abandonment of the original Senate bill in favor of enactment of Section 271(d)(5) in its present form somehow provided evidence of the intent of Congress. Based upon this inference, the panel held that Section 271(d)(5) did not foreclose application of the market presumption of *Loew's* to antitrust cases because the bill "that originally emerged from the Senate contained language also abrogating the presumption of market power in antitrust patent tying cases. This language was removed in a House amendment and does not appear in the statute, making clear that Congress was not attempting to change existing law in this respect." *Independent Ink*, 396 F.3d at 1349, n. 7 (internal citations omitted). This putative inference is totally unsupportable for three separate reasons.

First, the court of appeals panel erred by substituting tenuous inferences from a limited and ambiguous legislative history for any direct construction of the operative charging language of the preamble to Section 271(d). Indeed, the panel never attempted any full, reasoned construction of the language of any portion of the critical statute.

Second, Congress elected to abrogate the market power presumption of *Loew's* for licensed patent rights and patented products by adding a subsection to the existing template of Section 271(d), which already included the operative charging language of the preamble or "lead-in".[27] For that reason, only the legislative history of the original 1952 enactment could affect construction of the operative charging language of the preamble.

Finally, despite the panel's assertion that the Congressional purpose for enactment of Section 271(d)(5) is "clear", there is no logical warrant for the inferences and assumptions it draws regarding the Congressional rationale for abandoning a section of the original proposed Senate bill in favor of enacting Section 271(d)(5) within the existing framework of Section 271(d).

In concluding that the reasoning of the Calkins article as adopted by the district court in *Grid Systems* "can be questioned", the Hoerner article pointed out that "[t]he issue is what the lead-in language to § 271(d) means. It was passed in 1952, and had whatever meaning it had. That meaning cannot have been changed by Congress in 1988, for while it added two additional subsections to § 271(d), it left the wording of § 271(d), itself, untouched."[28] Hoerner article at 285.

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27. Moreover, by overruling the market presumption of *Loew's* through creation of an exemption in the statutory patent law, Congress rendered the presumption likewise unavailable under the principle of *United Shoe* for application in actions under the antitrust laws as well.

28. Under such circumstances, the Hoerner article (a) found *United States v. Clark*, 445 U.S. 23, 32-33 (1980) ("failure to alter" language from original enactment "likewise failed to modify the purpose of that provision as envisioned by the Congress that enacted it") "on point" and (b) submitted that "the views of a subsequent Congress form a hazardous basis for inferring the intent of an earlier one", *citing Russell v. United States*, 464 U.S. 16, 26 (1983) (internal quotes omitted).

As a matter of law, therefore, the court of appeals panel was wrong to attach significance to abandonment of another proposed statute in 1988, when the critical operative charging language of Section 271(d) had been enacted 36 years previously in 1952. Even were the analysis of the Federal Circuit panel permissible under the law, moreover, its inferences and assumptions regarding the Congressional decision to amend Section 271(d) rather than enact the Senate's original proposal are totally unsupported. There is nothing in the legislative history to support the panel's conclusion, and there are several inferences not considered by the panel which appear more likely than the one ascribed to Congress in the decision.

The original Senate bill, S. 438,[29] contained both Section 102,[30] a comprehensive provision that would have affected a broad spectrum of intellectual property, and Section 201[31], a narrower provision explicitly limited to patent-related activity. Ultimately, Section 102 was removed by a House amendment.

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29. Intellectual Property Antitrust Protection Act of 1988, S 438, 100th Cong. (1988)

30. Section 102 provided that:

> In actions in which the conduct of an owner, licensee, or other holder of an intellectual property right is alleged to be in violation of the antitrust laws in connection with the marketing or distribution of a product or service protected by such a right, such right shall not be presumed to define a market or establish market power, including economic power and product uniqueness or distinctiveness, or monopoly power.

31. Section 201 provided that :

> (d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his or her licensing practices or actions or inactions relating to his or her patent, unless such practices or actions or inactions, in view of the circumstances in which such practices or actions or inactions are employed, violate the antitrust laws.

The Federal Circuit panel apparently was referring to Section 102 in footnote 7 of its opinion. Far from containing a "clear" expression of Congressional intent, the legislative history is virtually silent as to why Section 102 was removed by the House amendment.[32]

The removed language was much broader than the court of appeals acknowledged and, if enacted, would have done far more than abrogate the presumption of market power in patent-related antitrust cases. Moreover, Section 102 would have required a separate statutory enactment rather than merely an amendment to Section 271(d) of the Patent Act.

There are at least two significant differences between the broad proposed Section 102 and the amended version of Section 271(d) enacted in 1988. Although either theoretically might explain why Congress did not enact Section 102, the actual explanation may be quite different.

First, while the scope of the amendment enacted by Congress is limited to patents, Section 102 would have applied to any intellectual property right, including copyrights. Second, the exemptions enacted by Congress as Sections 271(d)(4) and 271(d)(5) are limited narrowly to refusals to deal and the tying of staple products where the patent owner does not have "market power in the relevant market for the patent or patented product on which the license or sale is conditioned" -- not general marketing or distribution of goods or services covered by intellectual property rights.[33]

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32. Senator Leahy indicated that "the House did not have time to consider and approve this measure. . . ." 134 Cong. Rec. S. 17,148 (Daily ed., Oct. 21, 1988).

33. The scope of Section 102 was not limited to tying or "conditioned" sales or licenses. After its enactment, the mere pleading of an antitrust violation arguably would have required a full economic analysis and rule of reason trial, thereby subverting the prior *per se*

(Cont'd)

There is almost no record of why Congress did not enact Section 102. Arguably, Congress believed that Section 102 represented too broad a remedy for the narrow purpose of obviating the market power presumption of *Loew's*. An equally plausible explanation is that Congress realized either (a) that the operative charging language of Section 271(d) was sufficiently broad to immunize any additional subsections under the antitrust laws, or (b) that authorizing tied sales and licenses in the absence of market power under the patent laws likewise would provide antitrust immunity for such tying practices under the rule of *United Shoe*.

POINT II

THE COURT SHOULD EXPLICITLY OVERRULE WHATEVER REMAINS OF THE LOEW'S PRESUMPTION AS INCONSISTENT WITH SEVERAL IMPORTANT SUBSEQUENT LINES OF THIS COURT'S DECISIONS AND ON GENERAL PUBLIC POLICY GROUNDS AS WELL

The Association believes that reversal of the panel's decision can be predicated entirely upon the exemption of Section 271(d)(5). However, *Loew's* involved copyrighted films rather than patents or patented products as the alleged tying product. For that reason, the Association agrees with petitioners and the *amici* supporting the grant of *certiorari* that the Court might wish to explicitly overrule *Loew's* to foreclose the potential for continued application of the unwarranted market power presumption in copyright and other non-patent intellectual property contexts as well.

(Cont'd)

misuse holdings of this Court including, by way of example, the holding of *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) ("*Brulotte*"). In *Brulotte*, a license extending the obligation to pay royalties beyond the expiration of a licensed patent was proscribed as a *per se* misuse (*Id.* at 32-33), and this Court reasoned that temporal extension of the monopoly is "analogous to an effort to enlarge" the subject matter monopoly by product tying. *Id.* at 33.

A. The *Loew's* Presumption Is Inconsistent With At Least Two Lines Of Subsequently Announced Decisions Of This Court

1. Attenuation Of The Per Se Rule In Non-Patent Tying Cases

The NYIPLA endorses and will not duplicate the well-reasoned positions set forth in the Petition (at 14-17) and in the *amicus* briefs supporting the grant of *certiorari* of the ABA (at 12-14), and Pfizer (at 11) – all to the effect that the attenuation of the *per se* proscription of tying as demonstrated by the non-patent tying cases of this Court such as *Fortner II* cannot be harmonized with continuing application of the *Loew's* market power presumption.

2. The Requirements Of Walker Process

The Association also endorses and will not duplicate the positions set forth in the Petition (at 16-17) and the *amicus* brief supporting the grant of *certiorari* of Pfizer (at 7, 11) – all to the effect that the requirement of *Walker Process*, that market power in a patent-based antitrust case must be ascertained by comparison of the exclusionary scope of the patented claims with a properly defined relevant product market, likewise is inconsistent with continuing application of the *Loew's* market power presumption.

In this connection, the Association believes that Pfizer's response to the panel's argument that the rule of *Walker Process* cannot be extended to Section 1 cases is particularly cogent:

> That is a distinction without a difference. There is no reason to define antitrust markets and evaluate antitrust market power under different standards under § 1 and § 2 of the Sherman Act, both of which require application of the same type of fact-based economic analysis.

Pfizer Br. at 7.

B. The *Loew's* Presumption Contravenes Both Sound Economics And Important Public Policy Objectives Of Efficient Judicial Administration And Has Outlived Whatever Utility It Once Might Have Possessed

1. Evidentiary Presumptions Regarding Intellectual Property Markets Both Contravene Sound Economic Principles And Subvert Efficient Judicial Administration

The NYIPLA endorses and will not duplicate the positions set forth in the Petition (at 19-20) and the *amicus* briefs supporting the grant of *certiorari* of the ABA (at 14), IPO (at 11-13) and Pfizer (at 6) – all to the effect that the lower federal courts, commentators and scholars are virtually unanimous in their belief that the *Loew's* presumption is inconsistent with sound economic principles.

The Association also endorses and will not duplicate the positions set forth in the Petition (at 25-27) and the *amicus* briefs supporting the grant of *certiorari* of the ABA (at 15-16), AIPLA (at 10-13), IPO (at 15) and Pfizer (at 5) – all to the effect that the *Loew's* presumption as interpreted by the court of appeals panel would interfere significantly with the efficient administration of justice by increasing the cost of patent litigation and preventing dismissals of specious antitrust claims on summary judgment.

2. In The Wake Of Lear v. Adkins The Loew's Presumption Has Outlived Whatever Utility It Might Once Have Possessed

Finally, the Association respectfully submits that at least part of this Court's willingness to endorse evidentiary presumptions of market power in relevant antitrust product markets and theories of both *per se* misuse and *per se* antitrust illegality prior to the June 1969 decision in *Lear v. Adkins* probably can be attributed to a desire to facilitate

the ability of patent licensees to challenge the validity of patents by fitting themselves into one of the recognized exceptions to the licensee estoppel doctrine.

To the extent resort to the so-called "antitrust" exception to the estoppel doctrine was no longer required after this Court's *Lear v. Adkins* decision, therefore, a possible policy explanation for the market power presumption of *Loew's* also disappeared.

The "antitrust" exception to the licensee estoppel doctrine originated in this Court's 1942 *Sola Electric* decision,[34] where a licensee was permitted to challenge his licensor's patent despite the estoppel doctrine because the patentee had attempted to enforce a price-fixing clause in the license.

In the *Katzinger* and *MacGregor* decisions in 1947,[35] the *Sola Electric* rule was expanded to include situations where the patentee made no attempt to enforce a *per se* unlawful contract term but merely sought recovery of unpaid royalties. Justice Frankfurter's dissent in *MacGregor* suggested that the exceptions to the estoppel rule had become so widespread that it had become time to accord that doctrine a "decent public burial".[36]

In *Automatic Radio*, however, decided three years later in 1950, the Court's unwillingness to extend the *per se* rule of tying illegality to package licenses provoked an eloquent dissent from Justice Douglas. The dissent stressed the "toll" on the public weal that "invalid or expired" (or "stale and specious") patents represent. *Automatic Radio*, 339 U.S. at 840.

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34. *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173 (1942).

35. *Edward Katzinger Co. v. Chicago Metallic Mfg. Co.*, 329 U.S. 394 (1947); *MacGregor v. Westinghouse Elec. & Mfg. Co.*, 329 U.S. 402 (1947).

36. 329 U.S. at 416 (Frankfurter, J., dissenting).

Arguably, the market power presumption of the 1962 *Loew's* decision can be explained as a political compromise between those sitting justices who remained opposed to expansion of the *per se* rule of tying illegality to packaged copyrighted films and those who were pressing for complete abrogation of the estoppel doctrine.

Indeed, the decision in *Brulotte* announced two years after *Loew's* might well have signaled that the anti-estoppel faction led by Justice Douglas had achieved a majority, and that the estoppel doctrine itself could not be expected to survive. The actual decision in *Lear v. Adkins* was almost antclimactic.

The pre-*Lear* tension between the Court's reluctance unnecessarily to extend the scope of its *per se* rules and its desire to facilitate challenges to invalid patents by those with the greatest economic incentives to mount such challenges would seem to provide a possible explanation for the curious market power presumption crafted by Justice Goldberg in *Loew's*. Whether or not this explanation seems likely, respondent can muster no policy justification for retention of a precedent which has outlived whatever usefulness it may once have possessed.

The market power presumption of *Loew's* should be accorded the same "decent public burial" that the licensee estoppel doctrine was accorded in *Lear v. Adkins*.

CONCLUSION

For all the foregoing reasons, the judgment of the court of appeals panel should be reversed and the district court's summary judgment dismissing the antitrust claims of respondent under both its Section 1 and Section 2 Sherman Act theories should be reinstated.

Respectfully submitted,

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v.

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Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF PROFESSOR F.M. SCHERER AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

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BRIEF OF PROFESSOR F.M. SCHERER AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

INTEREST OF *AMICUS CURIAE*

Amicus F.M. Scherer is the Aetna Professor Emeritus at the John F. Kennedy School of Government, Harvard University.[1] He has also taught at Princeton University, the University of Michigan, Northwestern University, Swarthmore College, Haverford College, the Central European University, and the University of Bayreuth. From 1974-76, he was chief economist at the Federal Trade Commission. In 2002, Pro-

[1] No counsel for a party authored this brief in whole or in part, and no person other than *amicus curiae* and his counsel has made a monetary contribution toward its preparation or submission. By letters filed with the Clerk, petitioners and respondent have consented to this filing.

fessor Scherer received the Lifetime Achievement Award from the American Antitrust Institute. This Court has cited Professor Scherer's textbook *Industrial Market Structure and Economic Performance* in numerous prior antitrust opinions, including most recently in *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 476 n.23 (1992), and *Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 213–14, 227, 238–39 (1993). Professor Scherer has written extensively on the relationship between patent and antitrust laws. Indeed, both petitioners and the United States have cited Professor Scherer's work in their briefs in this case. *See* Brief for the Petitioners at 26, 38 n.13; Brief for the United States as *Amicus Curiae* at 12, 28. Professor Scherer wishes to explain why his work has led him to the conclusion that this Court should retain its rebuttable presumption of market power in patent tying cases.

INTRODUCTION AND SUMMARY OF ARGUMENT

The empirical finding that most patents are not valuable has led many commentators to make an analytical leap and conclude that the presumption of market power in patent tying cases is nothing but a vestige of outdated antitrust law. Such a conclusion, however, is unwarranted by the data. This Court should retain the market power presumption in patent tying cases. *See, e.g., International Salt Co. v. United States*, 332 U.S. 392 (1947); *United States v. Loew's, Inc.*, 371 U.S. 38, 45–46 (1962); *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 16-17 (1984). It remains an important tool in ensuring a competitive and free market for at least two reasons.

First, while it is true that most patents are not valuable, research into the subject of *why* particular patents are valuable has shown that patents involved in litigation are much more valuable than similar patents that were not involved in litigation. Results from a study of German patents show that patents in litigation are between 11.2 and 42.6 times more valuable than other patents, all else equal. In other words, the

fact of litigation itself is a strong signal of a patent's "appreciable economic power." *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 464 (1992). The research also suggests that the more costly the proceeding, the more valuable the patent. Parties are likely to expend more resources as the value of the item over which they are fighting increases. And the value of a patent corresponds with that patent's market power. Because it is highly likely that patents involved *in litigation* are valuable and have market power, the patent tying presumption remains appropriate.

Second, metered tying arrangements such as the one at issue in this case are normally anti-competitive and reflect market power. Metered tying occurs when a firm sells one product, the tying good, in conjunction with a second product, the tied good, so that sales of the tied good measure the use of the tying good. Real-world case studies of the automobile industry have shown that metered tying increases costs for consumers and commonly decreases output along with consumer welfare. These findings suggest that a metered tying arrangement by itself should be sufficient to trigger a presumption of market power.

ARGUMENT

MAINTAINING THE REBUTTABLE PRESUMPTION OF MARKET POWER IN PATENT TYING CASES IS ESSENTIAL FOR COMPETITIVE MARKETS

The vast majority of patents are not valuable. F.M. Scherer, *Firm Size, Market Structure, Opportunity, and the Output of Patented Inventions*, 55 Am. Econ. Rev. 1097, 1098 (1965). This finding initiated a stream of research into the subject of patent value, leading some academics and practitioners to conclude that in patent tying cases, a rebuttable presumption of a defendant's market power is inconsistent with antitrust

policy.[2] Yet a close analysis of the research shows that the opposite is true: A rebuttable presumption of market power is appropriate to preserve competition.

A. In the Litigation Context, Courts Should Presume the Market Power of a Company Attempting to Tie a Patented Product with an Unpatented Product.

1. While most patents realize modest or negligible rewards, patents involved in litigation are among the most valuable of patents. The 1965 paper establishing that the majority of patents are not valuable also demonstrated that *some* patents are highly valuable. *See* Scherer, *Firm Size*, at 1098. Relatively recent publications have examined the factors separating high-value and low-value patents through a study of the German patent system. *See, e.g.*, Dietmar Harhoff, F.M. Scherer & Katrin Vopel, *Exploring the Tail of Patented Invention Value Distributions*, in *Economics, Law and Intellectual Property* 279 (Ove Granstrand, ed., 2003); Dietmar Harhoff, F.M. Scherer, & Katrin Vopel, *Citations, Family Size, Opposition and the Value of Patent Rights*, 32 Res. Pol'y 1343 (2003).[3]

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[2] In its *amicus* brief, the United States quotes an article by Professor Scherer in support of its argument that "a market power presumption . . . may constitute a drag on innovation." Brief of United States as *Amicus Curiae* at 28 (citing F.M. Scherer, *The Innovation Lottery*, in *Expanding the Boundaries of Intellectual Property* 20 (Rochelle Dreyfuss et al. eds., 2001)). This article, however, does not support the proposition cited in the United States' brief. The article refers to behavior by *individuals*, not behavior by well-established *corporations*. *See* Scherer, *Innovation Lottery*, at 20.

[3] The authors chose to study the German patent system because its steep annual fee maintenance structure made Germany the best country to single out the most valuable patents for detailed inquiry. A patent holder that paid maintenance fees for the 18-year period was likely see the invention as a relatively valuable one with enduring advantages. Among the

The authors found that the most important factor in identifying a valuable patent was whether the patent had been involved in litigation.[4] Patents successfully withstanding a challenge by another party were *11.2 to 42.6 times more valuable* than patents with other similar characteristics (such as citations, foreign applications, etc.). *See* Harhoff, Scherer & Vopel, *Citations*, at 1358–59. At the time of the study, Germany allowed challenges to patents through two means—opposition proceedings and nullification proceedings. Patents that were challenged in but survived an opposition proceeding were 11.2 times more valuable than other similar patents; those patents that were challenged in but survived a nul-

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10,780 eligible patents studied, only 1,431 (13.3%) were renewed to full term. After the patents had run to full term, the authors of the study asked the patent holders: What was the price at which they would have been willing to sell their patent near the beginning of the patent term, assuming foreknowledge of how the patent's future profitability would unfold? The study found that even for this subset of *relatively valuable patents*, a skewed distribution still existed between high-value and low-value patents. Of the 772 patent holders who responded to the questionnaire (58.3% of the 1,325 patents whose owners could be traced), only 13% had a value of more than $2.5 million (using the year 2000 exchange rate between German marks and dollars). And even in this highest-value category, several patents had values 10 to 30 times the $2.5 million threshold. *See* Harhoff, Scherer & Vopel, *Exploring the Tail*, at 288.

[4] The authors also found that four other factors contributed to identifying the value of patents, although none was as powerful as the litigation effect. *First*, the authors found, unsurprisingly, that patents renewed to full term were much more valuable on average than the run-of-the-mill patent. *Second*, patents on which applications were filed in a considerable number of nations were more valuable than patents for which applications were filed only in a single nation. *Third*, although not predictable at the time of application, patents cited subsequently in many other patents were more valuable than sparsely-cited patents. *Fourth*, patents in the chemical fields listing many citations to prior patents and to prior scientific literature were significantly more valuable than patents with few such citations. *See* Harhoff, Scherer & Vopel, *Citations*, at 1357–58.

lification proceeding were 42.6 times more valuable, all else equal.[5]

This "litigation effect" has direct relevance to whether this Court should maintain its rebuttable presumption in patent tying cases. In the United States, absent intervention by a government antitrust agency, independent producers or customers of the tied good typically initiate complaints about tying arrangements. Such parties are analogous to the firms in Germany that challenged the validity of patents in opposition or nullification proceedings.

The German results not only show that a patent that is the subject of challenge typically is worth significantly more than other patents, they also show that the value of the challenged patents ordinarily *rises* as the cost of the challenge grows more expensive. Thus, in a German opposition proceeding, the cost to the firm filing the opposition was approximately DM 20-50,000, or $10-$25,000.[6] The cost of a nullification proceeding was in excess of DM 100,000, or $50,000. *See id.* at 1352.[7]

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[5] At the time of the study, a party had three months from the time of pregrant publication to file an opposition. The German Patent Office decides opposition proceedings, with a right of appeal to the Board of Technical Appeals of the German Patent Office. A nullification proceeding, by contrast, is an adversarial one that occurs in front of the Federal German Patent Court, with the losing party paying costs. The burden of proof for the challenger is also higher in nullification proceedings. A party may appeal a nullification proceeding to the German Supreme Court. For an in-depth description of opposition and nullification proceedings under German law, *see generally* N. Thane Bauz, *Reanimating U.S. Patent Reexamination: Recommendations For Change Based Upon A Comparative Study Of German Law*, 27 Creighton L. Rev. 945, 961–75 (1994).

[6] All references to the price in dollars use the approximate 2-1 exchange rate between German Marks and U.S. Dollars that existed in the year 2000.

[7] The difference between the administrative procedure and the judicial procedure most likely accounts for the difference in cost between the op-

These costs are small compared to the expense a plaintiff must incur to challenge a patent or a tying arrangement. In the United States, "the estimated median litigation costs for each party" in a patent case are $500,000 when less than $1 million is at risk, $2 million with $1-$25 million at risk, and "upwards of $4 million when there is more than $25 million at risk." Alexandra K. Pechhold, *The Evolution of the Doctrine of Equivalents in the United States, United Kingdom, and Germany*, 87 J. Pat. & Trademark Off. Soc'y 411, 436 (2005) (citing *American Intellectual Property Law Association Report of the Economic Survey 2003*, at 93 (2003)). Indeed, these numbers may well "understate the costs of patent litigation somewhat because extremely expensive cases aren't fully accounted for by the median number." Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 Nw. U. L. Rev. 1495, 1502 n.29 (2001). And the costs of litigating the most complex antitrust cases can be just as great. *See, e.g.*, Kim Peterson, *Seattle-Based RealNetworks Projects Cost of Its Microsoft Litigation*, Seattle Times, Dec. 20, 2003, at C1 (stating that RealNetworks' anticipated cost of its antitrust lawsuit against Microsoft, which includes allegations of tying, is $12 million per year, or *$1 million per month*).

The willingness of plaintiffs in American judicial proceedings to expend such large sums demonstrates that the patents at issue are among the few patents with truly significant value. *Cf.* Lemley, *supra*, at 1501 ("Of the roughly two million patents currently in force, only a tiny number are the basis for lawsuits each year. About 1,600 patent lawsuits are

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position and nullification proceedings. Moreover, the difference in incentives for a challenger to bring a riskier and more costly action may explain why patents surviving a nullification proceeding are worth more than patents surviving an opposition challenge.

filed each year . . . ."). And the value of a particular patent corresponds to that patent's economic power:

> The essence of the patent privilege is the right to exclude others from making, using, or selling that which is covered by the patent during its life. The value of this right depends upon how valuable the product or process is to users. This in turn depends upon the closeness of substitute products or processes, patented or unpatented, which are available. When a patented product or process is not "better" in this sense no return to the patentee is possible. Many patents are economically useless. On the other hand, when a patent is "good enough," and when its substitutes are remote, it may provide the patentee a very substantial return. It may give the patent holder enough economic power to substantially "control the market" in the field in which the patent applies. But "control of the market," an invidious description in the absence of a legal monopoly, when a patent is involved, is merely a description of the patent's value.

Ward S. Bowman, Jr., *Patent and Antitrust Law: A Legal and Economic Appraisal* 53 (1973). *See also* F.M. Scherer & David Ross, *Industrial Market Structure and Economic Performance* 622–23 (3d ed. 1990). *Cf.* William A. Drennan, *Changing Invention Economics By Encouraging Corporate Inventors To Sell Patents*, 58 U. Miami L. Rev. 1045, 1123 (2004) (studying reasonable royalties and concluding, consistent with the German study, that "while most patents create no market power, it seems likely that a patent holder who would be able to sell his or her patent for a substantial amount would have market power"); Richard G. Mason & Beth M. Polebaum, *Buying Intellectual Property from Troubled Companies*, 779 PLI/Pat 365, 402 (2004) ("The more monopolistic power the intellectual property confers, the higher the value.") (citing Lauren Johnston Stiroh and Richard T. Rapp, *Modern Methods for the Valuation of Intellectual Property* 526 PLI/Pat 171 (1998)). Thus, while it is true that most pat-

ents are not valuable, patents involved in litigation are highly likely to be worth the largest amount of money and confer significant power to exclude.

2. Because of the likelihood that a patent involved in litigation has substantial value and market power, this Court should maintain a rebuttable presumption of market power in patent tying cases. This presumption is not an anachronistic relic of antiquated antitrust analysis. Rather, it remains vital in ensuring vibrant competition and in promoting the goals of the antitrust laws.

Petitioners note the "enormous burden" to complete a "full-blown antitrust market analysis." Pet. Brief. 32–33. Yet this same point applies with even more force to the party attempting to challenge a tying arrangement. Given the substantial probability that the patent is valuable, the defendant is in a much better position to introduce evidence about the nature of the market—its structure, the potency of substitutes, or other factors demonstrating lack of market power. It is the defendant who must make the difficult decisions about the prices at which to offer the tying and tied products based upon market conditions. Placing the initial burden on the defendant allows the party with the best knowledge of the market to explain why its case is the rare one where a challenged patent is not valuable.

A proper rule should permit the patent holder to rebut the presumption by proving that the patent does not confer value or market power. The patent holder, for example, should be able to show that it lacks market power in the sense articulated in the Department of Justice-Federal Trade Commission Horizontal Merger Guidelines. *See* United States Dept. of Justice & Fed. Trade Comm'n, *Horizontal Merger Guidelines*, 4 Trade Reg. Rep. (CCH) ¶ 13,104 (1992). A patent holder might also illuminate any compelling efficiency advantages that the firm derives from the tie, again looking to the DOJ-FTC Merger Guidelines for guidance. Such a presumption in

the patent tying context is consistent with other antitrust cases. *See, e.g., Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 604–05, 608–11 (1985) (explaining that defendant must produce evidence of valid business justification to explain pattern of conduct); *NCAA v. Board of Regents of Univ. of Okla.*, 468 U.S. 85, 110 (1984) (stating that a "naked restraint on price and output requires some competitive justification even in the absence of a detailed market analysis").

The value of patents involved in litigation suggests that at the least, a plaintiff attempting to prove a patent tying arrangement should not be required to conduct a "full-blown" market analysis. Instead, a relaxed evidentiary burden could apply at first, allowing the plaintiff to meet its initial burden by pointing to signs of market power such as the value of the patent itself or the way in which the firm implements the tie. Once the plaintiff has met this initial threshold, the burden would shift back to the defendant to disprove market power. *Cf. Batson v. Kentucky*, 476 U.S. 79, 97 (1986) (burden shifts to government for neutral explanation of conduct when defendant makes *prima facie* showing of discriminatory jury selection); *McDonnell Douglas Corp. v. Green*, 411 U.S. 792 (1973) (burden-shifting in Title VII context when plaintiff makes a *prima facie* showing).

The simpler rule, however, is to keep the presumption intact. Because it is highly likely that the challenged patent is valuable and has "appreciable economic power," *Eastman Kodak*, 504 U.S. at 464, placing the initial burden on the defendant squares with economic reality. In short, because "the existence of market power is probable" in patents involved in litigation, this Court should not jettison its longstanding presumption of market power in patent tying cases. *Jefferson Parish Hospital District No. 2*, 466 U.S. at 17.

B. Metered Tying Arrangements Normally Are Anti-Competitive and Show Market Power.

Metered tying occurs when a firm sells one product, the tying good, in conjunction with a second product, the tied good, so that "sales of the tied good act as a meter that measures use" of the tying good. Louis Kaplow, *Extension of Monopoly Power Through Leverage*, 85 Colum. L. Rev. 515, 541 (1985). In other words, metered tying allows a firm to sell the tying good for the same price to both heavy and light users while reaping extra profit from heavy users due to the above-market price the firm charges on the tied product. Such a situation is most common when the tying product is a machine and the tied product is necessary for the functioning of the machine, such as tabulating machines and punch cards, *see International Bus. Mach. Corp. v. United States*, 298 U.S. 131 (1936), salt-dispensing machines and salt, *see International Salt Co. v. United States*, 332 U.S. at 392, copiers and copier repair, *Eastman Kodak*, 504 U.S. at 451, or a case such as this one, inkjet printheads and inks.

This Court has condemned metered tying as a form of price discrimination arising from the lifetime cost of the product because "purchasers with greater needs for the tied item make larger purchases and in effect must pay a higher price to obtain the tying item." *Jefferson Parish*, 466 U.S. at 15 n.23; *id.* at 36 n.4 (O'Connor, J., concurring in the judgment) ("Tying may also help the seller engage in price discrimination by 'metering' the buyer's use of the tying product."). Research into metered tying shows that the Court's conclusion is the correct one. The practice reduces output and decreases overall consumer welfare.

A real-world case study of the automobile parts industry supports the conclusion that metered tying adversely affects competition. *See* F.M. Scherer, *Industry Structure, Strategy,*

and Public Policy 308–11 (1996).[8] The automobile parts industry provides an example of metered tying because, due to the high cost of producing stamping dies, consumers traditionally were tied non-contractually to the original equipment manufacturer when they needed replacement crash parts. Therefore the automobile companies faced relatively inelastic demand for their factory-warranted crash parts. In other words, the number of parts a consumer buys would not change much even as the auto manufacturer increased the price of those parts. This relatively inelastic demand permitted the companies to charge prices far above marginal cost. Moreover, because some drivers use their cars much more than others, and some have more accidents than others, the car parts market allowed metering between light users and heavy users.

The following page presents a diagram of the market for the tying product—the car market in this real-world case study, equivalent to the printhead inkjet market in the case at bar. In the car market, demand is much more elastic (price-sensitive) than in the car parts market. Because the car market is relatively sensitive to price, the profit-maximizing price is only about 20% above marginal cost. This profit-maximizing price is represented in Figure 1 at P_{C1}. Realizing, however, that it can sell a greater quantity of lucrative crash parts [ink] if it sells more cars [printheads], the auto maker has an incentive to reduce its car price below the profit maximizing price of P_{C1} to the lower price of P_{C2}. This decrease from P_{C1} to P_{C2} expands the quantity of cars sold by 45%, represented in the diagram by the shift from Q_{C1} to Q_{C2}.

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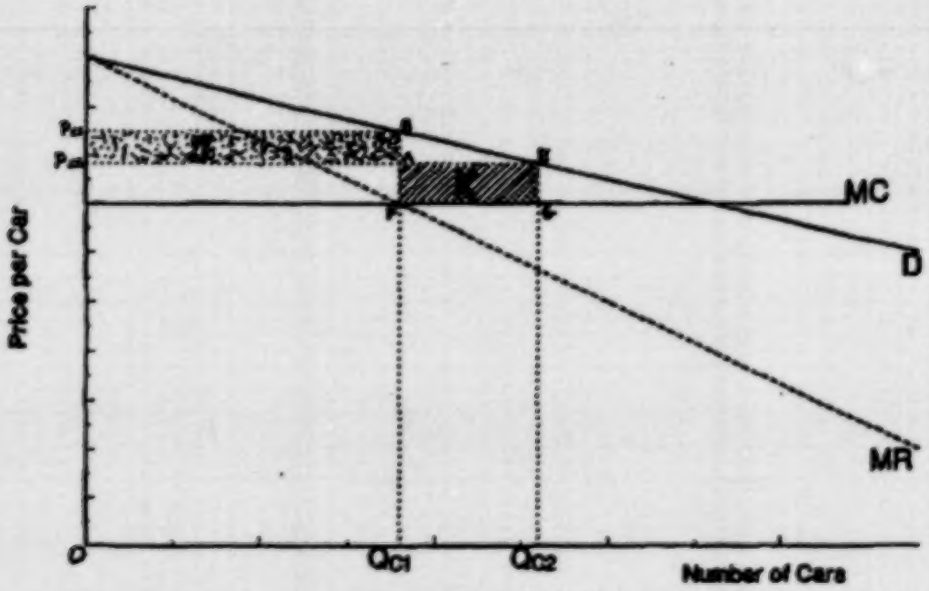
[8] This paragraph, the following paragraphs, and the diagrams stem from the same source.

Figure 1

THE TYING PRODUCT (CARS)



The reduction in price from P_{C1} to P_{C2} causes a small loss of profits in the car market, equal to Box J minus Box K. But the decrease in price to P_{C2} has a dramatic effect on the market for the tied good, car parts in this example and ink in the case at bar. As the quantity of cars [printheads] sold increases, the demand for car parts [ink] also increases. The demand for car parts [ink] increases because when the auto company sells more cars [printheads], consumers need more car parts [ink].

Figures 2 and 3 on the next page show the market for the tied product, car parts. These two figures illustrate the combined effect of tying on the tied good market [cars/ink], both for light users (Figure 2) and heavy users (Figure 3). The Figures are set out separately to demonstrate how the firm extracts greater profits from heavy users than it does from light users.

The decrease in price from P_{C1} to P_{C2} in the tying market (as shown in Figure 1) increases the demand for the tied good

[car parts/ink] and therefore shifts the demand curve in the tied good market.

Figure 2

TIED GOODS (PARTS) – LIGHT USERS

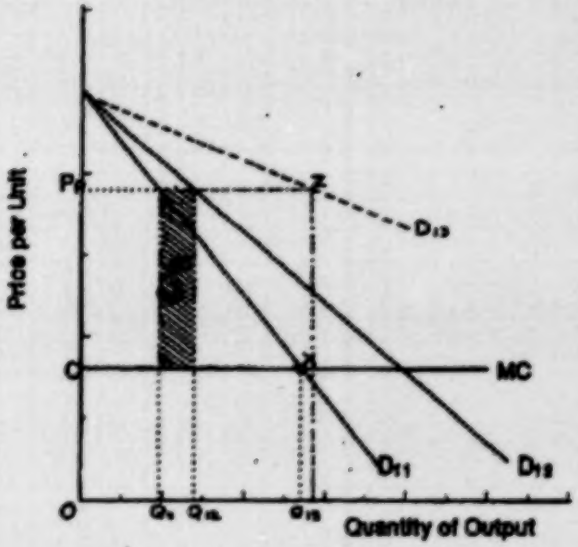
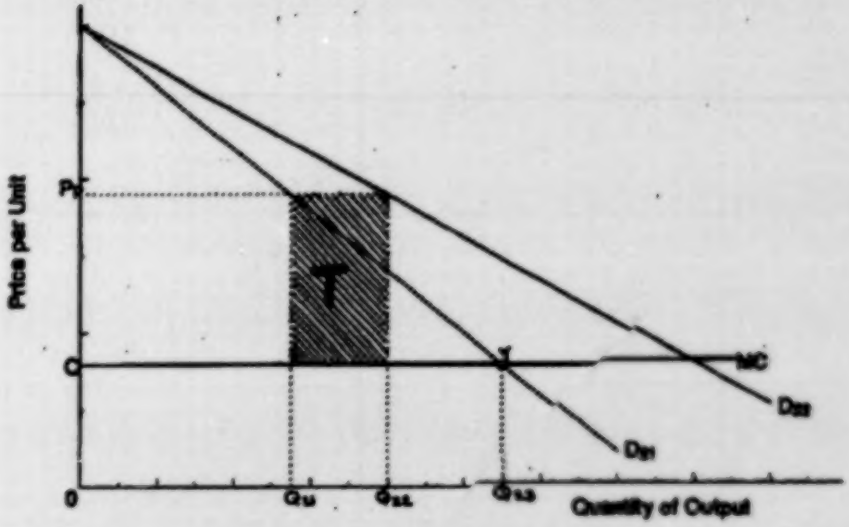


Figure 3

TIED GOODS (PARTS) – HEAVY USERS



Figures 2 and 3 show this increased demand in the tied good market by the shift in the demand curve from D_{11} to D_{12} for light users (Figure 2) and from D_{21} to D_{22} for heavy users

(Figure 3). The demand curve in both instances shifts to the right (*i.e.*, increases) by 45%—the same percentage as the Figure 1 increase in quantity of cars sold as a result of the price decrease for automobiles.

The price reduction in the car [printhead] market has the corresponding effect of increasing profit for the firm in the car parts [ink] market. The increase in profit is the sum of Box S in the light user market plus Box T in the heavy user market. This increase in profit from car parts [ink] sales is much greater than the sacrifice of profits (Box J minus Box K) in the car [printhead] market. *Cf. Kodak*, 504 U.S. at 471 ("[T]here could easily be a middle, optimum price at which the increased revenues from higher priced sales of service and parts would more than compensate for the lower revenues for lost equipment sales."). The result of the auto price reduction is that more autos [printheads] are sold, which in turn means that the firm sells more parts [ink]. It is this increase in quantity sold that has led some commentators to attribute "efficiency" gains to metered tying.

A fundamental problem exists, however, in associating any efficiency gain with metered tying: The "efficiency" is due primarily to the firm's market power in the tied market. In the car parts example, the price is more than double marginal costs. If nothing else then, any increase in "efficiency" occurs only at the expense of the consumer and of lower prices. *Cf. NCAA v. Board of Regents*, 468 U.S. at 107 ("Congress designed the Sherman Act as a consumer welfare prescription. A restraint that has the effect of reducing the importance of consumer preference in setting price and output is not consistent with this fundamental goal of antitrust law.") (internal quotation marks and citations omitted).

Allowing competition in the tied market [car parts/ink] demonstrates how a metered tying arrangement distorts the market. If competition were feasible in the car parts [ink] market, the price would fall from P_P toward marginal cost,

represented by the line MC in Figures 2 and 3. Because the auto manufacturer could not make lucrative profits in a competitive market for car parts [ink], the company would not have the incentive to reduce its price in the car [printhead] market from P_{C1} to P_{C2}. Consequently, the demand for the tied good [car parts/ink] would not shift, remaining at D_{11} for light users and D_{21} for heavy users. Thus, in a competitive car parts [ink] market, the equilibrium would be at point X in the light user segment and at point Y in the heavy user segment. Figures 2 and 3 show the output *(i.e.*, quantity) at this equilibrium at points Q_{13} and Q_{23}, respectively. These quantities produced by a free market are ***higher*** than with tying. (Compare Q_{13} with Q_{12}, and Q_{23} with Q_{22}.).[9]

Moreover, the "efficiency" argument in favor of metered tying overlooks two other points. *First*, purchasers of the tying good [cars/printheads] may foresee that the firm will subject them to higher prices, or they may not. *Cf. Kodak*, 504 U.S. at 473 ("Lifecycle pricing of complex, durable equipment is difficult and costly. . . . Much of this information is difficult—some of it impossible—to acquire at the

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[9] A case where output might increase through a tying arrangement is if a tremendous increase in the quantity sold of the tying good [cars/printheads] caused a correspondingly huge demand increase for the tied good [car parts/ink]. Such an event would cause the demand curve to shift massively to the right, as illustrated by line D_{13} of Figure 2. This huge shift in tied good demand would cause output to increase above the level that would prevail in a competitive market. But the increase in output would come at the expense of consumers, who would continue to pay above-market prices for the tied good. Moreover, ignoring the increased burden on consumers, even this example cuts decidedly in favor of a presumption against metered tying. The firm implementing the tying scheme is the one best-positioned, indeed perhaps the only one with the information, to know whether tying is output-enhancing. Placing the burden on the tying firm would allow the party with the best information to demonstrate, if it can, that its case is the anomalous one in which a tie causes an increase in output as compared to outputs achieved in a competitive market.

time of purchase."). If they have good foresight, then the demand for the tying good [cars or printheads] will be different from the illustration of the car market presented here. The demand of a consumer with perfect information depends not only upon the price of a car or printhead, but on the anticipated price of the car parts or ink. Thus, the higher the anticipated price of the tied good, the more demand would *decrease* in the car or printhead market. The consumer would recognize that the price of the tying good is simply a small down payment on the total cost of the desired service. The effect of foresight consequently cuts *against* any output-enhancing tendencies of tying.

If, on the other hand, the more likely scenario occurs and consumers do not have perfect information about the future price of the tied good, they will make their purchases on the basis of perceived prices that are lower than the total prices they will actually pay. In other words, the tying firm sells more and enjoys more profit only because the consumer is misinformed. And it is no "efficiency" gain to capitalize on a situation where a consumer lacks the necessary information vital to the accurate functioning of a free market. Consequently, with few exceptions, the effect of tying is to reduce output, reduce consumer welfare, or both.

Second, the consumers' expenditure of time and resources in attempting to avoid the tie (*i.e.*, in their quest to find a lower price) results in other inefficiencies. For example, in the automobile parts market, the above-market prices charged by automobile manufacturers for car parts during the 1970s and 1980s caused a thriving new industry to develop: chop shops, where thieves would steal cars, disassemble them into their constituent parts, and then sell them at bargain prices to body repair shops. *See* Scherer, *Industry Structure*, at 311. Thus, the sale of tied goods such as car parts or ink can induce costly evasion.

In this case, the mere fact that petitioners are tying printheads to ink in a metered fashion shows the "appreciable economic power" of the firm. *Kodak*, 504 U.S. at 464. Moreover, contrary to the assertions of petitioners and the United States, *see* Pet. Brief at 27–32; Brief of United States as *Amicus Curiae* at 29 & n.23, the type of tying arrangement at issue here increases costs for consumers while customarily decreasing output and consumer welfare. Consequently, this Court should maintain its presumption of market power at least in cases such as this one, where the patent holder ties a consumer's purchase of a patented good with the purchase of an unpatented one.

CONCLUSION

For the foregoing reasons, the judgment of the court of appeals should be affirmed.

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ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.,
Petitioners,

v.

INDEPENDENT INK, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF FOR VERIZON COMMUNICATIONS AS *AMICUS CURIAE* IN SUPPORT OF PETITIONERS

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IN THE

Supreme Court of the United States

No. 04-1329

ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.,
Petitioners,

v.

INDEPENDENT INK, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF FOR VERIZON COMMUNICATIONS AS *AMICUS CURIAE* IN SUPPORT OF PETITIONERS

INTEREST OF *AMICUS CURIAE*

Amicus Verizon Communications is a major provider of wireless and land-line telecommunications and related goods and services.[1] Rapid change—in technology, in product definitions, in the state of competition—pervades its business. Verizon has been a frequent litigant in antitrust cases, including in this Court. *See, e.g., Verizon Communications Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398 (2004); *Nynex Corp v. Discon, Inc.*, 525 U.S. 128 (1998).

[1] This brief was prepared in full by Verizon and its counsel. No other person made a monetary contribution toward its preparation or submission. By letters filed with the Clerk, petitioners and respondent have consented to this filing.

Verizon has a strong interest in the development of sound antitrust principles, including those defining "tying" law. To prevent the perverse use of antitrust law to impede efficient practices and legitimate competition, such principles should embody meaningful threshold requirements for antitrust intervention in a manner that provides workable guidance to the bench and bar. Sound antitrust principles should minimize both case-specific costs, such as erroneous condemnation of legitimate business practices and the costs of litigation, and, at least as important, should minimize the systemic costs inflicted by rules that either overreach substantively or are simply too difficult to apply reliably—costs that include the chilling effect on innovation, investment, and legitimate competition caused by the prospect of massive litigation expenses, unpredictable results, and treble-damages liability inherent in antitrust cases. Verizon here sets forth a general antitrust policy analysis showing the need, at a minimum, for a strict requirement of clear affirmative proof of market power as a condition of any tying claim.

INTRODUCTION AND SUMMARY OF ARGUMENT

This Court has held that a tying claim generally requires proof of market power over the tying product, as well as forcing of the purchase of a second separate product (the tied product), plus certain effects on the tied-product market. *Jefferson Parish Hospital Dist. No. 2 v. Hyde*, 466 U.S. 2, 12-16 (1984); *see Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 462, 464 (1992). The specific question presented in this case is whether the defendant's ownership of a patent on the tying product can properly give rise to a presumption of market power in the tying-product market. Petitioners, as well as others, persuasively show that it cannot, because any such intellectual property right is not even a close proxy for the required market power—an *economic* concept, present only if there are insufficient actual or potential substitutes in the eyes of buyers that the defendant can

profitably sustain a price significantly above competitive levels. *See Eastman Kodak*, 504 U.S. at 464 ("'the ability of a single seller to raise price and restrict output'"); *NCAA v. Board of Regents of Univ. of Oklahoma*, 468 U.S. 85, 109 n.38 (1984); *Jefferson Parish*, 466 U.S. at 27 n.46; R. Posner, *Antitrust Law* 195-96 (2d ed. 2001).

In this brief, we underscore that conclusion—and the inappropriateness of allowing intellectual property to serve even as a burden-shifting substitute for market power—by reiterating just how important is a strict requirement of market power to any sound doctrine for condemning tying under the antitrust laws. As an initial matter, conduct typically challenged as tying is substantively unilateral in nature: it involves no contractual commitments about whether the buyer will deal with rival sellers in future purchases, but merely the defendant's decision what to sell (two items together), which is comparable to the defendant's decision what to charge. The effect on rivals is like that of any simple sale: a de facto displacement of some of the buyer's interest in buying from someone else. Tying is therefore subject to the especially strong demands of antitrust law, when applied to unilateral decisions about how to compete, for careful justification and formulation of any ground of judicial intervention, taking full account of the possible benefits of the conduct, the difficulty of identifying when such conduct works antitrust harm, and the dangers that the systemic effect of a particular rule of illegality will (because of substantive overreach or unpredictability or difficulty of application) be to chill desirable competitive conduct.

Tying—selling two items only together, not separately—is ubiquitous in the economy. Critically, it is commonplace in competitive markets. That fact confirms that tying widely, and presumptively, serves efficiency interests, and it undermines any notion that tying should be viewed with suspicion. The benefits of tying—for example, in consumer convenience

and in production and packaging and transaction cost savings—are well recognized. An intrusive tying rule will therefore cause market harm. Yet concrete identification of such benefits is often difficult or impossible, so a rule that demanded proof of such benefits would erroneously condemn many beneficial ties.

The circumstances in which tying can be reliably judged to cause market harm are narrow and hard to identify in practice. The analysis of *Jefferson Parish*, and its elaboration in then-Judge Breyer's opinion in *Grappone, Inc. v. Subaru of New England, Inc.*, 858 F.2d 792 (1st Cir. 1988), indicate that the circumstances are a mere subset of cases in which the defendant has not only market power over the tying product but a likelihood of obtaining market power over the tied product. Recent economic literature about tying, which assumes away efficiencies (among its other acknowledged limitations), furnishes no basis for any more interventionist standard.

The other elements of tying doctrine themselves carry a high likelihood of erroneous determination and costly litigation—and hence add to the reasons a firm would have to shy away from conduct that might be accused of tying, even when it is efficiency enhancing and unlikely to work any market harm. It is expensive to litigate, and hard to predict the answer to, the question whether a sale involves separate products. The difficulties, and the risk of erroneous condemnation of beneficial ties, are especially great where technological change is substantial. Similar difficulties infect the element of "forcing" the purchase of the tied product, at least when the inquiry extends to the pricing terms of the package offered by the defendant. Finally, consideration of justifications for a tie poses its own dilemma: if excluded from the judicial inquiry, tying law is substantively too intrusive, condemning much beneficial conduct; if included in the judicial inquiry to avoid such overreach, the complexity and difficulty of litigation are increased.

In these circumstances, screening devices are essential to reduce the range of error and deterred competition. At a minimum, a strict requirement of affirmatively proven market power over the tying product is needed to serve that function; a second important screen is proof of a dangerous probability of market power in the tied-product market. A critical part of such screens is the assignment of a strict burden of proof to the plaintiff, which reduces the risks and costs of antitrust litigation that otherwise can be a powerful force for deterring competition. The importance of the market power screens makes it all the more damaging to allow any displacement by a poor substitute like the presence of an intellectual property right.

ARGUMENT

BASIC ANTITRUST POLICY REQUIRES AFFIRMATIVE PROOF OF MARKET POWER AS ONE ESSENTIAL CONDITION OF A TYING CLAIM

Other briefs filed in this case demonstrate the core reason for reversal of the Federal Circuit's judgment. The presence of a patent or other intellectual property right covering a particular product is so poor a proxy for any market power in the sale of that product—so badly corresponds to the economic question of adequacy of actual and potential substitutes—that it cannot reasonably support a presumption of market power. Treating an intellectual property right as giving rise to such a presumption is all the more consequential an error to the extent that a requirement of market power itself is central to any sound condemnation of tying.

This brief focuses on the policy reasons for this Court to affirm the centrality of a strong requirement of affirmative proof of market power as a threshold condition of establishing tying liability in the first place. *Jefferson Parish*, 466 U.S. at 12-14 (market power required for tying to force buy-

er's purchase of a tied product it does not want or wants to buy elsewhere); *see Eastman Kodak*, 504 U.S. at 464 (same); *Grappone*, 858 F.2d at 794-95 (antitrust concern with tying is limited to sellers with "significant market power"). Given the prevalence and significance of efficiency justifications for tying, the difficulty of identifying circumstances where tying causes antitrust harm, and the uncertainties of the other elements of current tying doctrine, a strict requirement of affirmatively proved market power over the tying product—along with, indeed, a likelihood of such power over the tied product—is an essential screen for tying claims. Without such power, there is no sound basis for treating tying as suspect, and tying law would likely do more harm than good.

A. Conduct Typically Attacked As Tying Is Unilateral In Nature And Thus Subject To The Strong Preconditions For Antitrust Intervention Especially Applicable To Unilateral Conduct

1. This Court has observed that the Sherman Act treats unilateral and concerted action differently. In particular, an especially strong presumption against antitrust intervention applies to unilateral conduct, as distinguished from concerted action that takes the form of promises about how the parties will make future choices about what they buy or sell. *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752, 767-69 (1984); *see* 3A P. Areeda & H. Hovenkamp, *Antitrust Law* ¶ 772d, at 192-93 (2d ed. 2002); *Trinko*, 540 U.S. at 410 n.3 (distinguishing concerted from unilateral refusals to deal). The dichotomy reflects an elementary truth: unilateral action that harms rivals is inherent in competition, and so restricting it through antitrust law carries distinctive risks of harming competition itself. *Copperweld*, 467 U.S. at 767-68 (harm to rivals inherent in competition; unilateral conduct governed by standards that seek to "reduce[] the risk that the antitrust laws will dampen the competitive zeal of a single aggressive entrepreneur").

Conduct commonly attacked as tying falls on the unilateral side of the line.[2] Not only is there no "conscious commitment to a common scheme designed to achieve an unlawful objective," the normal requirement for a conspiracy. *Monsanto Co. v. Spray-Rite Serv. Corp.*, 465 U.S. 752, 764 (1984). In addition, conduct attacked as tying ordinarily involves nothing but the defendant's unilateral choice of what to sell, which a plaintiff can frequently characterize as involving two items or services together. Such conduct involves no promise by the buyer to refrain from dealing with other firms or, indeed, any promise regarding future purchases at all.

In this respect, tying, in defining what to sell, is akin to price setting, which defines what to charge. The sale involved in both circumstances can have an effect on the buyer's potential transactions with the defendant's rivals, but

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[2] We put aside cases involving a buyer's promise not to deal with a rival seller, which is only awkwardly described as a "tying" arrangement (rather than "exclusive dealing") in any event. We note, too, that the substantive policy distinction discussed in text is not identical to the distinction between Section 1 and Section 2 of the Sherman Act. On one hand, the distinction between suspect concerted action and the kind of contract that is inherent in the simple purchase of a tying and tied product is important even if the purchase contract suffices to trigger Section 1 of the Sherman Act. On the other hand, agreements are among the actions that have been held to be monopolizing acts under Section 2. *E.g.*, *United States v. Microsoft Corp.*, 253 F.3d 34, 60-65, 67-76 (D.C. Cir. 2001) (en banc).

While the buyer's agreement to purchase the tied product has been treated as satisfying Section 1's requirement of concerted action, *see, e.g.*, *Systemcare, Inc. v. Wang Labs. Corp.*, 117 F.3d 1137, 1145 (10th Cir. 1997) (en banc), Section 1 has been held to require a showing that the challenged agreement "*itself* affected competition in ways that would not have obtained absent the agreement," *Dickson v. Microsoft Corp.*, 309 F.3d 193, 210 (4th Cir. 2002) (emphasis added); *see id.* at 208 (without horizontal agreement among buyers, each defendant's alleged tying arrangement "when considered individually" must be "capable of causing . . . substantial harm to competition").

the effect is no more than that of any sale: it might de facto displace the buyer's need to buy from a rival. Defining what to sell and defining what to charge are inherent in any firm's unilateral conduct in the marketplace. Tying should therefore be subject to the especially strong demand for coherent affirmative proof, and judicial caution, in applying the powerful antitrust remedies to restricting unilateral conduct.

2. At least two related premises support the demand for special justification before antitrust law intervenes to restrict unilateral conduct—premises that squarely apply to tying claims. *First*, antitrust policy is disserved by rules of law that discourage any firm, including a monopolist, from adopting efficient practices and vigorously competing to the detriment of rivals. Consumers suffer from such self-restraint. Not only do they miss the direct benefits (*e.g.*, of lower prices enabled by the efficiencies), but they are harmed indirectly, as actual and potential rivals can afford to be lazy under the monopolist's "umbrella"—rivals are forced to do less, whether through innovative leap-frogging or otherwise, to match or to improve upon the monopolist's offerings if the monopolist is "pulling its competitive punches." *Olympia Equip. Leasing Co. v. W. Union Tel. Co.*, 797 F.2d 370, 375 (7th Cir. 1986) (per Posner, J.).

Second, it is hard to distinguish legitimate rival-harming unilateral conduct from conduct that should be condemned through antitrust law. *See Trinko*, 540 U.S. at 408 (relying on "the difficulty of identifying and remedying anticompetitive conduct by a single firm"); *id.* at 414 ("Under the best of circumstances, applying the requirements of § 2 'can be difficult' . . . . "); *Copperweld*, 467 U.S. at 767-68 ("it is sometimes difficult to distinguish robust competition from conduct with long-run anti-competitive effects"); Evans & Padilla, *Designing Antitrust Rules for Assessing Unilateral Practices: A Neo-Chicago Approach*, 72 U. Chi. L. Rev. 73, 73, 75 (2005) ("the welfare effects of unilateral practices [including tying] are inherently difficult to assess"). Two leading economists explain: "One problem that haunts most antitrust litigation . . . is that vigorous competition may look very similar to acts that *undermine* competition and support monopoly power. The resulting danger is that the courts will prohibit, or the antitrust authorities will prosecute, acts that *appear* to be anticompetitive but that really are the opposite. The difficulty is that effective competition by a firm is always tough on its rivals." W. Baumol & A. Blinder, *Economics: Principles and Policy* 425-26 (8th ed. 2000) (paragraph break omitted); *Concord v. Boston Edison Co.*, 915 F.2d 17, 21 (1st Cir. 1990) (per Breyer, C.J.) ("almost all business activity, desirable and undesirable alike, seeks to advance a firm's fortunes at the expense of its competitors"); *id.* at 23 ("Merely eliminating competitors is not necessarily anticompetitive, for, as we explained earlier, even legitimate business activity that succeeds in helping a firm will likely disadvantage the firm's competitors.").

Antitrust rules that restrict unilateral conduct therefore must guard against multiple dangers. To begin with, they must try to minimize case-specific social costs. Thus, they must seek to avert false positives—antitrust condemnation of conduct that should be allowed—which are "'especially costly, because they chill the very conduct the antitrust laws are designed to protect.'" *Trinko*, 540 U.S. at 414 (quoting *Matsushita Elec. Industrial Co. v. Zenith Radio Corp.*, 475 U.S. 574, 594 (1986)); *see id.* ("The cost of false positives counsels against an undue expansion of § 2 liability."). And the applicable antitrust rules must seek to keep the sheer costs of the antitrust litigation as low as possible. Case-specific error and administration costs are reason enough to demand clear screening mechanisms for meritless claims.

Lowering systemic costs is at least as important in framing sound standards for antitrust intervention. A business's decision whether to adopt or not to adopt a legitimate, but rival-

harming, practice will inevitably be influenced by its prediction both of how likely it is that the practice will be erroneously condemned in antitrust litigation (initiated by, *e.g.*, the harmed rival or a customer class action), generating treble damages and attorneys' fees, and of what the costs will be of defending the practice. *See South Austin Coalition Community Council v. SBC Communications Inc.*, 191 F.3d 842, 845 (7th Cir. 1999) ("[a]ntitrust litigation can be very costly"); *Virgin Atlantic Airways Ltd. v. British Airways PLC*, 257 F.3d 256, 263 (2d Cir. 2001) ("Wasteful trials and prolonged litigation that 'may have a chilling effect on procompetitive market forces' should be avoided."). Not only substantively overbroad rules, but rules that are difficult, vague, or otherwise unpredictable in application, and rules that simply require costly litigation, all will deter businesses from engaging in legitimate competition. Easterbrook, *The Limits of Antitrust*, 63 Tex. L. Rev. 1, 14-15 (1984), and encourage use of litigation as a tool to dampen vigorous rivalry.[3] Any articulated basis for antitrust intervention, at least for unilateral conduct, simply cannot be justified without careful consideration of these real-world costs and a consequent effort to define workable threshold requirements

[3] *See* Baumol & Ordover, *Use of Antitrust To Subvert Competition*, 28 J. L. & Econ. 247, 254 (1985) ("[O]bscurity and ambiguity are convenient tools for those enterprises on the prowl for opportunities to hobble competition. As we know, it is not always necessary to win cases in order to blunt a rival's competitive weapons. Harassment by lawsuit or even the threat of harassment can be a marvelous stimulus to timidity on the part of competitors. The potential defendant who cannot judge in advance with any reasonable degree of certainty whether its behavior will afterward be deemed illegal is particularly vulnerable to guerrilla warfare and intimidation into the sort of gentlemanly competitive behavior that is the antithesis of true competition."); *id.* at 264 ("Mere accusation and trial subjects the defendant firm to enormous expenses and even greater ex ante risks of an expensive adverse decision, even if it transpires ex post on the basis of convincing evidence that it is completely innocent.").

that protect against such systemic chilling of investment and vigorous competition.

Serious attention to these considerations is essential to prevent antitrust doctrine from turning the Sherman Act into a weapon for undermining the very policies the Act is supposed to promote. This Court relied on just such considerations in carefully limiting the grounds of antitrust intervention not only in *Trinko*, 540 U.S. at 407-08, but in *Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 223, 226-27 (1993). Similar considerations were clearly articulated in two First Circuit opinions written by then-Judge Breyer.[4]

Antitrust policy thus requires several questions to be asked for any sound formulation of a ground of condemnation. Based on the difficulty or ease of making the judgments required by a rule, and an empirical sense of the relative frequency of legitimate versus illegitimate uses of the practice at issue, how many false positives will a rule of law directed to a particular practice generate, and how many false negatives? What are the costs of making the crucial distinctions

[4] Judge Breyer explained that, "while technical economic discussion helps to inform the antitrust laws, those laws cannot precisely replicate the economists' (sometimes conflicting) views. For, unlike economics, law is an administrative system the effects of which depend upon the content of rules and precedents only as they are applied by judges and juries in courts and by lawyers advising their clients. Rules that seek to embody every economic complexity and qualification may well, through the vagaries of administration, prove counterproductive, undercutting the very economic ends they seek to serve." *Barry Wright Corp. v. ITT Grinnell Corp.*, 724 F.2d 227, 234 (1st Cir. 1983). He later elaborated that antitrust rules "must be clear enough for lawyers to explain them to clients," "administratively workable," and "designed with the knowledge that firms ultimately act, not in precise conformity with the literal language of complex rules, but in reaction to what they see as the likely outcome of court proceedings." *Concord v. Boston Edison*, 915 F.2d at 22. *See also* D'Amato, *Legal Uncertainty*, 71 Cal. L. Rev. 1 (1983) (describing costs of legal uncertainty).

required by the rule, and what are the systemic costs for private businesses that have to live with the rule? And, as between courts and the marketplace, which is more likely to correct errors, and after how long, and at what cost (erroneous judicial condemnations have to be corrected by later changes in law, erroneous judicial vindications have to be corrected by market displacement)? *See* Evans & Padilla, at 80-88; Hylton & Salinger, *Tying Law and Policy: A Decision-Theoretic Approach*, 69 Antitrust L.J. 469, 498-502 (2001).

"The costs of false convictions in antitrust decisions involving unilateral practices are likely to be significantly larger than those of false acquittals." Evans & Padilla, at 83. At least in general, the skepticism about antitrust intervention for unilateral conduct may be viewed as a presumption that the marketplace is a better corrective mechanism than the courts (or Congress). Expunging antitrust decisions that unsoundly restrict competitive conduct takes considerable time and effort, whereas allowing a practice that builds or reinforces monopoly power, if that power is exploited, invites entry. *Id.*; *see* Easterbrook, at 15. Our economic system is built on the general judgment that the incentive for profit (by those developing innovations and otherwise seeking entry when markets are monopolized) is a powerful force for undoing monopoly, just as the presumptively protected opportunity to charge monopoly prices "is what attracts 'business acumen' in the first place." *Trinko*, 540 U.S. at 407.

The required analysis, as applied to tying, makes clear the importance of strictly requiring affirmative proof of market power.

B. Tying Is Pervasive, Including In Competitive Markets, And Commonly Carries Benefits, Though The Benefits Are Hard To Prove

The early rule against tying reflected the belief that "tying arrangements serve 'hardly any purpose beyond the suppression of competition.'" *Jefferson Parish*, 466 U.S. at 34 (O'Connor, J., concurring in the judgment) (quoting *Standard Oil Co. v. United States*, 337 U.S. 293, 305-06 (1949)). *Jefferson Parish* recognized that the early belief was mistaken. Referring to a seller's "refusal to sell two products separately," the Court observed that "[b]uyers often find package sales attractive" and "a seller's decision to offer such packages can merely be an attempt to compete effectively—conduct that is entirely consistent with the Sherman Act." 466 U.S. at 12.

Continued study has deepened the understanding that tying is frequently beneficial. To begin with, it is now widely recognized that "tying is pervasive," even where it is taken as a given that there are separate products. Evans & Padilla, at 89. "Cars only come with air conditioners, mobile phones with ring tones, newspapers with arts sections, law school curricula with courses on torts, computer operating systems with internet-communication protocols, and cameras with built-in flashes." *Id.* at 90. *See also* Evans & Salinger, *Why Do Firms Bundle and Tie? Evidence from Competitive Markets and Implications for Tying Law*, 22 Yale J. Reg. 37, 40-41 (2005); Hylton & Salinger, at 486 ("A moment's reflection reveals that tying is utterly ubiquitous."); *id.* at 498 & n.113.

More particularly, "tying is common in competitive markets." Evans & Salinger, at 40, 83. That fact establishes that tying widely carries efficiency benefits. Broad and persistent adoption of a practice in a competitive market powerfully indicates efficiency because competition from rivals otherwise would force abandonment of the practice. *See* Evans & Padilla, at 81 ("Consider a practice in which firms in both competitive and uncompetitive markets engage. We would expect that the practice cuts costs or enhances value—after all, competitive firms cannot survive indefinitely if they do not use the most efficient methods of producing, designing, and distributing products."); Hylton & Salinger, at 497-98

("the prevalence of tying in competitive markets indicates that it often provides the economic benefits of providing convenience and lowering costs"). "There is no economic reason to believe that these efficiencies become less important as firms acquire market power." Evans & Padilla, at 81; *id.* at 91 (the "sources of efficiency remain, regardless of the degree of market power of the firm engaging in the practice"); Evans & Salinger, at 42. And firms with market power have an incentive to pass on at least some of the benefits to their customers. Hylton & Salinger, at 504. Accordingly, "[i]f the practice is one employed widely in industries that resemble the monopolist's but are competitive, there should be a presumption that the monopolist is entitled to use it as well. For its widespread use implies that it has significant economizing properties, which implies in turn that to forbid the monopolist to use it will drive up his costs and so his optimum monopoly price." R. Posner, at 253; *see* Epstein, *Monopoly Dominance or Level Playing Field? The New Antitrust Paradox*, 72 U. Chi. L. Rev. 49, 60 (2005).

Based on the prevalence of tying in competitive markets, "[t]oday it seems quite clear that most tie-ins benefit competition, even when the defendant has tying product power." 9 P. Areeda & H. Hovenkamp, *Antitrust Law* ¶ 1720a, at 220 (2d ed. 2004) (footnote omitted). The benefits are various. Offering two products only together can provide customer convenience and can lower marginal costs of production, packaging costs, delivery and other transaction costs, and costs of dealing with product complexity. *See* Evans & Salinger, at 43, 52; Evans & Padilla, at 90-91; Hylton & Salinger, at 485-86, 504.[5] Other benefits include efficient quality control

[5] As one simple illustration of cost savings, consider a firm selling widgets (the tying product) and gadgets (the tied product). "Suppose for example that 80% of the purchasers of widgets also want gadgets, that gadgets cost $1 to produce, and that the incremental cost of packaging gadgets separately from widgets is $0.30. In this example, it is cheaper to provide a gadget for those who do not want it (a cost of $1 per customer for 20% of the customers) than it is to package the goods separately ($0.30 per customer for 80% of the customers)." Hylton & Salinger, at 503.

and economies of scale easing entry into a tied product market. 9 *Antitrust Law* ¶ 1703g, at 44-46, ¶¶ 1711-1718h, at 100-214; 10 P. Areeda, H. Hovenkamp, & E. Elhauge, *Antitrust Law* ¶¶ 1761-1764e, at 357-98 (2d ed. 2004); *see* Meese, *Tying Meets the New Institutional Economics: Farewell to the Chimera of Forcing*, 146 U. Pa. L. Rev. 1, 10, 59-66, 74-84 (1997).

While the ubiquity of tying in competitive markets confirms the reality of its benefits, the kinds of benefits conferred by tying are commonly difficult to prove. "It is not surprising that businesses have difficulty documenting and sometimes even articulating efficiencies. In reality, businesses operate instinctively and often cannot show that their prices are profit maximizing or that they are minimizing costs—even though we assume successful businesses gravitate toward best practices. The efficiency gains from practices such as tying and distribution agreements are often subtle and not readily reduced to accounting numbers." Evans & Padilla, at 82; *see* Evans & Salinger, at 83 (Tying "results in lower costs for producers—which get passed on to consumers—or greater convenience, which benefits consumers directly. But these cost savings for producers and consumers are not necessarily easy to document."); *id.* at 85-86 ("even in competitive industries where we are confident that efficiencies are the only plausible explanation for the practice, solid empirical evidence is not easy to produce"). With tying as with many other competitive practices, "[e]fficiencies are hard to measure, and the benefit of the doubt should go to defendants, not to plaintiffs; otherwise, the continued generation of the large efficiency benefits responsible for raising our standard of living will be jeopardized." Carlton, *A General Analysis of Exclusionary Conduct and Refusals to Deal—Why* Aspen *and* Kodak *Are Misguided*, 68 Antitrust L.J. 659, 675 (2001).

For these reasons, a tying law rule that condemns tying without inquiry into efficiencies would produce erroneous condemnations (and deter still further beneficial ties). And so too would a standard that allows such inquiry but places a substantial burden on defendants to prove such efficiencies. Evans & Salinger, at 86.

C. Antitrust Harm From Tying, Which Requires Market Power, Is Difficult To Identify

The Court has already made clear that market power is one necessary condition for condemning a tie. *Jefferson Parish*, 466 U.S. at 14-16; *see Eastman Kodak*, 504 U.S. at 464. A tying violation also requires separate products, forcing of customers seeking the tying product also to take the tied product, and certain effects on the tied-product market. *See, e.g., id.* at 461-62; 9 *Antitrust Law* ¶ 1702, at 27-30. Those conditions alone, however, are insufficient to draw a sound inference of antitrust harm, both because of the existence of efficiencies and for other reasons. *See, e.g.*, Evans & Padilla, at 82 ("The principal implication of several decades of economic investigation on the competitive effects of unilateral practices, such as exclusive dealing and tying, is that there should be *no* presumption . . . that these practices are anticompetitive, even when undertaken by firms with monopoly power.") (footnote omitted); Evans & Salinger, at 85 ("As a matter of theoretical and empirical economics, the modified per se test is not capable of identifying anticompetitive tying except by happenstance. The single-product test, which examines whether the tying and tied good are part of a 'single product,' is not a reliable proxy for examining whether there are efficiencies or not."); 9 *Antitrust Law* ¶ 1730, at 351-59.

In *Grappone*, then-Judge Breyer explained that "tying's anticompetitive mechanism is not obvious." 858 F.2d at 794. In a typical situation, a firm with monopoly power in the tying product can exploit its power through the price it

charges for that product and gains no additional monopoly profits by tying. *Id.* at 795. As Judge-Breyer explained:

> If the Seller does not have market power in respect to Product A, it cannot force buyers to take a more expensive or less desirable Product B, for if the Seller tries to do so, buyers will simply turn elsewhere for Product A. If the Seller does have, and has been fully exercising, market power, it also cannot force buyers to take a more expensive or less desirable Product B, *unless* it provides buyers *equivalent* compensation by lowering the price of Product A (or maintaining Product A's price at a level lower than the Seller has the *power* to charge), for otherwise buyers, who were already paying as much as the Seller could charge them (with its degree of market power) would also likely switch to other sellers or discontinue use of Product A.

Id. at 795. In such circumstances, efficiency is the presumptive explanation for tying.

Any market harm requires a more complex set of conditions, keyed to genuinely constricting competition in the tied product. *Id.* at 795-96. In particular, as Judge Breyer explained, *Jefferson Parish* itself recognized that the mechanism of market harm from tying applies only if the seller "first hurts firms seeking to sell the *tied* product. Only if the tie significantly reduces the opportunities to sell Product B" can there be market harm. 858 F.2d at 796, citing *Jefferson Parish*, 466 U.S. at 14. What is required is that the tie "permit[] the Seller to extend its market power from one level to two," *i.e.*, threaten to gain market power in the tied product market, so that buyers are forced to rely on the seller for their tied product as well as the tying product, and a new entrant would be forced to enter both lines of business in order successfully to reach potential buyers. 858 F.2d at 795-96. As a logical matter, then, the effect on the tied product market that is necessary (but not sufficient) for any sound inference of antitrust harm is one of at least a dangerous probability of

market power in that market. *See Carl Sandburg Village Condominium Assn. No. 1 v. First Condominium Dev. Co.*, 758 F.2d 203, 210 (7th Cir. 1985); 9 *Antitrust Law* ¶ 1722d, at 260.

Newer economic models (referred to as "post-Chicago" literature) have described, theoretically, some circumstances where a monopolist might gain additional profits by tying. That is not by its terms a sufficient basis for condemnation. More specifically, the limitations of this literature are as important as the "possibility theorems" it presents. Evans & Padilla, at 78-79, discussing, in particular, Whinston, *Tying, Foreclosure, and Exclusion*, 80 Amer. Econ. Rev. 837 (1990), and Carlton & Waldman, *The Strategic Use of Tying to Preserve and Create Market Power in Evolving Industries*, 33 RAND J. Econ. 194 (2002); *see* Hylton & Salinger, at 488-95.

First, the models *add* to the requirement of a "monopoly" in the tying product (Evans & Padilla, at 78) further preconditions about likely constriction of the tied product market (*e.g.*, scale economies or other entry barriers in the tied-product market). *Second*, the most the models do is show that a monopolist sometimes might earn more profits by tying; they say nothing about whether those circumstances are actually likely to arise, let alone how to identify them reliably. Hylton & Salinger, at 497 ("the models cannot tell us even that anticompetitive tying is more than a remote possibility"). *Third*, as important, showing the ability to gain more profits (within the circumstances theoretically identified) is *not* the same as showing market harm, for these models expressly assume away efficiencies; *i.e.*, they effectively deal with only half the required inquiry even for a case-specific analysis. Evans & Padilla, at 79; Evans & Salinger, at 51; Hylton & Salinger, at 506. Thus, even in the circumstances hypothesized, they do not find the absence of net consumer benefit based on the tying arrangement's generating more profits (deservedly) because it enhances consumer value. *Fourth*,

the models do not (even purport to) proceed to the next essential stage of examining the systemic positives and negatives of an antitrust rule allowing litigation to try to sift the chaff from the wheat. *Fifth*, in fact, the narrow assumptions in the new models are very sensitive (minor alteration changes the conclusion) and are difficult to identify with any reliability. *See* Evans & Padilla, at 74 ("since the models are highly sensitive to specific assumptions and parameter values, they do not provide much practical guidance"), 79-80, 90 n.67 & 91 (models' limits stressed by their creators); *id.* at 98 ("the post-Chicago literature . . . has yet to demonstrate a capacity to produce . . . useful descriptions of the circumstances determining whether a practice is procompetitive or anticompetitive"); Evans & Salinger, at 41 ("Foreclosure theories show that tying could be anticompetitive under special conditions that are difficult and perhaps impossible to verify in practice."), 51-52[6]; Hylton & Salinger, at 488-95, 497, 506-07.

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[6] "The models demonstrate the theoretical possibility of tying to foreclose entry. They thereby provide a necessary correction to the Chicago view (among some adherents) that profitable foreclosure is never possible. The new models rest, however, on very restrictive assumptions. One is that bundling generates no efficiencies. Without allowing for possible efficiencies, the models cannot weigh the offsetting welfare effects of efficiency and foreclosure. Moreover, even if one were to incorporate efficiencies into the models, the remaining assumptions are so stylized that it is hard to know when they apply—if ever. As it currently stands, the literature represents a significant scholarly contribution which, with further work, might yield useful policy insights. The existing literature by itself, though, does not give the antitrust authorities or the courts much practical guidance on how to determine whether a particular tie harms consumer welfare." Evans & Salinger, at 51 (footnotes omitted). Carlton and Waldman, notably, have stated cautions about the use of their model in imposing antitrust liability. Carlton & Waldman, *How Economics Can Improve Antitrust Doctrine Towards Tie-In Sales*, 1 Competition Policy Int'l 27, 29, 40 (2005).

In short, antitrust harm from tying remains dauntingly difficult to identify reliably even with the firm requirement of monopoly power over the tying product. Certainly there is no basis for permitting condemnation of any tie that does not begin with such power. And in fact the literature powerfully supports the conclusion that the required effect in the tied-product market is one of probable market power. A strong screening mechanism is needed to reduce the risk of condemnation, or deterrence, of ties that are beneficial rather than harmful.

D. Litigation Under Existing Tying Doctrine Carries Substantial Costs And Uncertainties

The need for a market power screen for tying claims is reinforced by the problematic character of the other elements of current tying doctrine. Notably, "[i]t has often proven difficult to decide whether a transaction really involves two different products and whether they have been 'tied' together, because the tying concept has become widely elastic." 9 *Antitrust Law* ¶ 1720a, at 220 (footnote omitted). The result is a high risk of error for courts applying current law and great uncertainty for businesses contemplating the possibility of costly litigation.

1. One threshold requirement for a tying claim is to demonstrate the existence of separate products. *Jefferson Parish*, 466 U.S. at 18-22; *see Eastman Kodak*, 504 U.S. at 462. But "[w]hen a bundle constitutes separate products rather than a single product is often unclear. This problem has become more noticeable as plaintiffs have become ever more creative in characterizing transactions as involving separate products . . . . " 10 *Antitrust Law* Ch. 17D-1, at 151. And "[t]he problem is pervasive because just about any product could be described as a tie of its components." *Id.* Yet the legal approaches to answering the doctrinal question—whether there is "sufficient consumer demand so that it is efficient for a firm to provide" the two allegedly separate products separately (*Eastman Kodak*, 504 U.S. at 462; *Jefferson Parish*, 466 U.S. at 21-22)—are complex, uncertain, and difficult to apply. The leading treatise devotes more than 100 pages just to this element of tying law. 10 *Antitrust Law* ¶¶ 1741-1751f, at 151-260. *Compare Jefferson Parish*, 466 U.S. at 24 (anesthesia and surgery "two distinguishable services") *with id.* at 43 (O'Connor, J., concurring in the judgment) ("no sound economic reason for treating surgery and anesthesia as separate services").

Markets characterized by innovation—as when new technologies change the nature of products or services—present special complications. Notably, the *Jefferson Parish* approach to testing whether a defendant's practices involve separate products is a "poor fit" for new offerings to the extent that it looks to *others*' practice, which may, almost by definition, provide an inapt comparison. *United States v. Microsoft Corp.*, 253 F.3d 34, 85 (D.C. Cir. 2001) (en banc).[7] Moreover, when an industry is undergoing technological change, there is at least some reason to think that the risk of harm from a less interventionist approach to tying is generally

[7] *Id.* at 89 ("The per se rule's direct consumer demand and indirect industry custom inquiries are, as a general matter, backward-looking and therefore systematically poor proxies for overall efficiency in the presence of new and innovative integration. *See* 10 AREEDA ET AL., ANTITRUST LAW ¶ 1746, at 224-29; Amicus Brief of Lawrence Lessig at 24-25, and sources cited therein (brief submitted regarding Conclusions of Law). The direct consumer demand test focuses on historic consumer behavior, likely before integration, and the indirect industry custom test looks at firms that, unlike the defendant, may not have integrated the tying and tied goods. Both tests compare incomparables—the defendant's decision to bundle in the presence of integration, on the one hand, and consumer and competitor calculations in its absence, on the other. If integration has efficiency benefits, these may be ignored by the *Jefferson Parish* proxies. Because one cannot be sure beneficial integration will be protected by the other elements of the per se rule, simple application of that rule's separate-products test may make consumers worse off.").

lower. The self-correcting mechanism of the market (reacting to judicial false negatives) would seem generally to work especially well when technological change allows rivals to jump beyond a current monopolist's technology, whether by full-scale replacement or by innovations that combine partial substitution with other benefits the monopolist is not offering. *See* Hylton & Salinger, at 513.

Further, in technologically changing markets, product definition itself may be especially fluid, and therefore unreliable. Tying may even by key to creation of new product markets—as when, for example, cable television service changed from retransmitting a few broadcast television signals to offering many-channel packages, thereby creating a market for multi-channel video programming distribution (MVPD) services. *See* FCC, *Report on the Packaging and Sale of Video Programming Services to the Public* 62 (Nov. 18, 2004) ("The bundling of channels into tiers of services is, generally, an economically efficient way of providing MPVD subscribers with video programming."). Condemning a tie may perpetuate a separate market for each constituent and obstruct the evolution of a new composite product market.

2. The "forcing" requirement of tying law, which cannot reliably suggest whether a challenged tying arrangement is efficient or inefficient, can also be difficult and uncertain. Some cases involve a defendant's unambiguous requirement to buy two products together. But plaintiffs sometimes seek to prove forcing by showing that the pricing terms are such that customers can hardly make a rational economic choice but to take the tied product along with the tying product—because the package price and the tying-product price are sufficiently close. *See* 10 *Antitrust Law* ¶ 1758, at 323-36; Hylton & Salinger, at 510. The resulting inquiry can easily demand tasks for which this Court has noted the courts are not well suited. *Trinko*, 540 U.S. at 408 ("identifying the proper price, quantity, and other terms of dealing [is] a role

for which [the courts] are ill-suited"); *see Concord v. Boston Edison Co.*, 915 F.2d at 25. The difficulties can prompt courts to turn to substitutes for the inquiry that are even more unpredictable and subjective, and ungrounded in any economically coherent and workable rule that preserves for customers the benefits of package pricing. *Cf. LePage's Inc. v. 3M*, 324 F.3d 141 (3d Cir. 2003) (en banc), *cert. denied*, 124 S. Ct. 2932 (2004) (Section 2 package pricing); *see* Crane, *Multiproduct Discounting: A Myth of Nonprice Predation*, 72 U. Chi. L. Rev. 27 (2005) (criticizing *LePage's* decision); Rubinfeld, *3M's Bundled Rebates: An Economic Perspective*, 72 U. Chi. L. Rev. 243 (2005) (same).

3. The costs of erroneous legal condemnation under tying doctrine are particularly great if efficiencies are ruled out of the inquiry, because a finding of antitrust harm cannot soundly be made if the elements of tying exclude such inquiry. So recognizing, courts have allowed efficiency, or justification, inquiries in a variety of tying cases. *See Microsoft*, 253 F.3d at 94-95; 10 *Antitrust Law* ¶ 1760c, at 347 ("The lower courts have consistently considered justifications in principle, approving ties for all the reasons that the Supreme Court has suggested, plus additional ones.") (footnote omitted). On the other hand, once the inquiry is allowed (in order to avoid a rule that is in its very terms overintrusive), the expense and difficulties of the litigation increase, and so do the uncertainties. As already noted, it is hard to assess the relevant efficiencies—even when the prevalence of the practice in competitive markets establishes that they are likely to be significant.

E. A Strict Threshold Requirement Of Affirmatively Proved Market Power Is Essential For Any Tying Claim

For all the foregoing reasons, tying law carries high risks of case-specific error and broad potential to inflict systemic harm from deterring the adoption of efficient practices simply

because of the costs and risks of litigation. The problem would not be solved by simply announcing a general rule of reason approach to evaluating the harms and benefits of a challenged tying arrangement, without significant *threshold* requirements to eliminate the broad classes of tying arrangements that, as a matter of precedent and economic analysis, cannot be found, reliably and without overriding systemic risks, to cause consumer harm.[8] The need for meaningful screens is reinforced by the policy judgment that the costs of rules inviting undue intrusion on unilateral conduct such as tying are likely to be greater than the costs of rules that may generate some false negatives.

The most obvious minimum requirement for a sound tying standard is affirmative proof of market power over the tying product—along with a requirement that market power over the tied product be proven dangerously probable. There is no substantial possibility of harm (or forcing) without such market power. *Grappone*, 858 F.2d at 795-96; *see* Hylton & Salinger, at 503; 10 *Antitrust Law* ¶ 1734b3, at 39 ("no tying arrangement can harm competition in the tied market absent 'power' in the tying market"). Where market power over the tying product is lacking, indeed where a high degree of market power is lacking, buyers can turn to others for the tying product, and that ability is a better constraint on any damaging tying arrangements than any rule of law. R. Posner, at 265 ("[H]ow can a firm with only 30 percent of a market exclude competitors by tying two products together? A firm that wants to produce only one of these products will have no

[8] *See* Evans & Padilla, at 75 n.8 (Judge Easterbrook in 1984 "emphasized the importance of presumption in structuring antitrust inquiries" and "observed that the full rule of reason approach is often impractical"; all the more so today, for with "the benefit of over twenty years of game-theoretic industrial organization models . . . . [we are] skeptical about the ability of economics to provide the necessary guidance for a full-blown rule of reason inquiry").

difficulty finding customers."). And without likely market power over the tied product, the tying arrangement cannot reliably be found to enhance the seller's ability to charge supracompetitive prices in the short or long run. *Cf. Trinko*, 540 U.S. at 415 n.4 (rejecting "leveraging" without dangerous probability of market power in the second market).

A strict requirement of affirmative proof of market power can matter considerably in practice. The burden of proof and an explanation by this Court that the requirement must be enforced rigorously can diminish the adverse market effects of a looser tying standard. Such formulations can make a difference in screening out, even in the decision whether to launch litigation, claims for which a reliable case of harmful tying can never be made. And they can make a large difference in reducing the costs and risks of litigation.

In particular, summary judgment must be granted to the defendant if the plaintiff cannot meet its burden of proof on an essential element. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 254-57 (1986); *Celotex Corp. v. Catrett*, 477 U.S. 317, 322-23 (1986). The burden of proof is most important – is intended to be dispositive—precisely on matters that resist reliable resolution, because adequate information is unavailable or for other reasons. *See Cruzan v. Director, Missouri Dep't of Health*, 497 U.S. 261, 282-83 (1990). It is therefore an important element of antitrust cases. And, with a serious market power standard that can be applied at the summary judgment stage, in many cases the costs of litigation can be dramatically reduced by a district court's narrowing discovery to focus on market power as a prelude to a summary judgment motion.

In short, general antitrust analysis makes clear that the requirement of affirmatively proven market power is so critical to any sound tying-law standard that it must be carefully preserved. The Court should reinforce the requirement in this case. And it should reject the watering down of this impor-

tant requirement effected by the unsound presumption of market power based on a patent or other intellectual property right.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

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v.

INDEPENDENT INK, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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INTEREST OF *AMICUS*

The Washington Legal Foundation ("WLF") is a public interest law and policy center based in Washington, D.C., with supporters nationwide. While WLF engages in litigation and administrative proceedings in a variety of areas, WLF devotes a substantial portion of its resources to defending free enterprise, individual rights, and a limited and accountable government. To that end, WLF has frequently appeared as *amicus* in this and other federal courts to address the proper scope of the antitrust laws. *See, e.g., Verizon Communs., Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398 (2004); *United States Tobacco Co. v. Conwood Co., 537 U.S. 1148 (2003)*; *Hartford Fire Ins. Co. v. California*, 509 U.S. 764 (1993); *In re Stock Exchs. Options Trading Antitrust Litig.*, 317 F.3d 134 (2d Cir. 2003).[1]

WLF is concerned that the decision below, if not reversed by this Court, would subject intellectual property owners to the potential of treble damages liability even though, as a factual matter, they lack the market power necessary to produce anticompetitive harm. Further, overcoming the market power presumption requires a considerable investment by the intellectual property owner in litigation, money which could be better invested in innovation. As a result of this presumption of market power, a patent owner, confronted with even the sketchiest allegation of tying, must pay for a full-blown antitrust market-definition analysis. This is an enormous burden to impose on intellectual property owners, and correspondingly, places a

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[1] In accordance with Supreme Court Rule 37.6, the Washington Legal Foundation states that this brief has not been authored in whole or in part by counsel for a party and that no person or entity, other than *amicus*, its members or its counsel, has made a monetary contribution to the preparation or submission of this brief. The Washington Legal Foundation has no interest in any party to this litigation or stake in the outcome of this case. *Amicus* has lodged with the Clerk of the Court letters from all parties consenting to the filing of this brief.

drain on our economy and our judicial resources. The presumption is without justification in economics or at law, and the holding of the Federal Circuit should be reversed.

SUMMARY OF ARGUMENT

The presumption that an owner of intellectual property automatically has market power is not mandated by Congress and is solely a creature of the lower courts misinterpreting precedent. The presence of legally differentiated property in a case fails to either define the relevant market for the product or provide a means to measure market power, and as such, a presumption to the contrary is without merit. Presumptions should only exist where the facts which are to be proven, such as market power, are known to consistently follow from a proven fact, such as the ownership of intellectual property, to the degree that it would be a waste of judicial resources and an unfair burden to require the proponent of the fact to prove its existence. The presumption that the ownership of intellectual property defines the relevant market and indicates the existence of market power fails this test.

This Court has clearly held that in tie-in cases not involving intellectual property there must be proof of market power or "forcing" which results in an "actual adverse effect on competition" in the relevant market, and that intellectual property does not represent an equivalent to "market power." *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 29-31, 37 n.7 (1984). As such, the fact that a case involves intellectual property should not give rise to a presumption that the owner possesses market power, as to hold otherwise results in inconsistency.

Intellectual property possesses no inherent characteristics that justify shifting the burden of proving the absence of market power to the owner of that property. The standards applied for determining whether an article is patentable should not be considered the equivalent of the

antitrust standards for determining the level of economic power necessary to establish anticompetitive conduct in the relevant marketplace. The fact that a product involved in a tying arrangement has apparently met the patent requirements of novelty, usefulness, and non-obviousness necessary to acquire a patent does not justify a presumption of market power for a patented tying product. These criteria are related to patents, and are wholly unrelated to modern antitrust theory and its economic underpinnings. Because the characteristics which are possessed by intellectual property fail to serve as accurate proxies for identifying the relevant market, or for measuring market power within the relevant market, plaintiffs should have the same burden of proving market power in tie-in cases involving intellectual property as they have in cases involving any other type of property.

The existence of the presumption that intellectual property indicates market power only serves to encourage frivolous nuisance suits, since it makes the likelihood of a plaintiff surviving a motion to dismiss or for summary judgment much less difficult, even where the patented or copyrighted product possesses no market power whatsoever. Faced with the threat of a full-blown antitrust trial, with its accompanying expense and the threat of treble damages, the owners of intellectual property will be under enormous pressure to settle such cases. Furthermore, the presumption encourages defendants in infringement actions to bring antitrust counterclaims in order to circumvent the requirements of the patent misuse defense created by Congress under 35 U.S.C. § 271(d)(5). This defense requires a showing of market power by the alleged infringer. The presumption therefore poses a significant risk to patent owners simply trying to enforce their rights under their patents.

As a result, the presumption of market power undermines the incentives that the patent laws were intended to provide. The incentive to innovate is severely handicapped

if the innovator is subject to an increased risk of frivolous and nuisance suits. As noted, the presumption increases the risk of litigation being filed, and of ultimate liability with its corresponding threat of treble damages. These costs necessarily reduce the potential return on investment, and so correspondingly reduce the value of intellectual property. A rule which reduces intellectual property's value and prevents its proper exploitation imposes substantial costs on society, and is the antithesis of both antitrust and patent principals. For these reasons, the presumption of market power should be abolished.

ARGUMENT

I. INTRODUCTION

"[T]he aims and objectives of patent and antitrust laws may seem, at first glance, wholly at odds. However, the two bodies of law are actually complementary, as both are aimed at encouraging innovation, industry and competition." *Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990). Notwithstanding this observation, the Federal Circuit's opinion below does precisely the opposite, and must be reversed. The Federal Circuit stated that it was compelled by the precedents set forth in *International Salt Co. v. United States*, 332 U.S. 392 (1947) and *United States v. Loews, Inc.*, 371 U.S. 38 (1962) to find a presumption of market power in tying cases where the tying product is legally differentiated by the existence of a patent.

Specifically, the Federal Circuit held that "a patent presumptively defines the relevant market as the nationwide market for the patented product itself, and creates a presumption of power ... and consequent illegality that arises from patent tying." Pet. App. 15a. A careful reading of this statement reveals that the opinion in fact contains two presumptions which, taken together, define the market and establish power within it. First, the existence of a patent

establishes a presumption that there is a nationwide market for the object of the patent, and second, that the existence of a patent establishes a presumption of power within that presumed nationwide market. Both of these presumptions are economically unsound, and to the extent that the utilization of such presumptions is compelled by precedent, those precedents should be overturned.

This Court has noted that in the antitrust context "there is a competing interest [to *stare decisis*], well-represented in th[e] Court's decisions, in recognizing and adapting to changed circumstances and the lessons of accumulated experience." *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997). While it is important that stability and consistency be maintained in the law, in the area of antitrust, "this Court has reconsidered its decisions construing the Sherman Act when the theoretical underpinnings of those decisions are called into serious question." *Id.* at 20, 21 (overruling *Albrecht v. Herald Co.*, 390 U.S. 145 (1968)); *see also Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984) (overruling *Kiefer-Stewart Co. v. Joseph E. Seagram & Sons, Inc.*, 340 U.S. 211 (1951)); *Continental T.V. Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36 (1977) (overruling *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967)).

It is beyond dispute that the theoretical underpinnings of the market power presumption have been called into disrepute, in the academic community, in the antitrust enforcement community, and in the courts. These critics consistently point out that the existence of a patent or copyright is a poor predictor of market power, and without such economic power, the possibility of anticompetitive forcing is unlikely. The presumption, therefore, represents "an antitrust policy divorced from market considerations . . . [and therefore] lack[ing] any objective benchmarks." *Continental T.V.*, 433 U.S. at 53 n.21. In *Eastman Kodak*, this Court stated that "[l]egal presumptions that rest on formalistic distinctions rather than actual market realities are generally

disfavored in antitrust law." *Eastman Kodak Co. v. Image Technical Servs.*, 504 U.S. 451, 466-467 (1992). Implausible presumptions, like implausible inferences, "deter procompetitive conduct." *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 593 (1986) (citation omitted); particularly where the threat of treble damages is likely to "inhibit management's exercise of its independent business judgment." *Monsanto Co. v. Spray-Rite Serv. Corp.*, 465 U.S. 752, 764 (1984).

As the Chairman of the ABA explained:

> Because such presumptions are arbitrary, ignoring real world facts, they have no proper basis from the point of view of either intellectual property or antitrust law, and they lower incentives created by intellectual property law to invest in new jobs and new industrial facilities based on technical advances.
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> *Market Power and Intellectual Property Litigation: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the House Comm. on the Judiciary*, 107th Cong. 2 (Nov. 8, 2001) (statement of Charles P. Baker, Chair, ABA Section of Intellectual Property Law)[2]

The presumption that intellectual property serves as an adequate substitute for market definition and market power falls squarely into this category.

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[2] Available for download at *http://judiciary.house.gov/legacy/baker_11801.pdf.*

II. THE PRESUMPTION PRESERVES AN UNWARRANTED DISTINCTION IN TYING CASES.

A tying arrangement is a two-product sale where the seller will sell one of the products (the "tying product") only if the buyer purchases the other product (the "tied product"). *See Eastman Kodak*, 504 U.S. at 461 (quoting *Northern Pac. Ry. Co. v. United States*, 356 U.S. 1, 5-6 (1958)) ("A tying arrangement is an 'agreement by a party to sell one product but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier.'"). As is the case with most package sales, the two products are more often than not related in use and, in theory, therefore more appealing to the buyer. This Court has recognized that tying is not necessarily *per se* unlawful. *See, e.g., Times Picayune Publ'g Co. v. United States*, 345 U.S. 594 (1953); *Jefferson Parish*, 466 U.S. at 16-18. In tying cases not involving patents or other forms of intellectual property, a plaintiff must define the market of the products at issue, and demonstrate that the seller has appreciable market power within that market. "[I]f the seller has 'appreciable economic power' in the tying product market and if the arrangement affects a substantial volume of commerce in the tied market," the tying will be found to violate Section 1 of the Sherman Act (15 U.S.C. § 1). *Eastman Kodak*, 504 U.S. at 462 (citation omitted).

Establishing the existence of market power is the centerpiece of the modern jurisprudence laid down by this Court regarding the illegality of tying arrangements. "[T]he essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms." *Jefferson Parish*, 466

U.S. at 12. "Accordingly, [the court has] condemned tying arrangements when the seller has some special ability – usually called 'market power' – to force a purchaser to do something that he would not do in a competitive market. When 'forcing' occurs, [the Court's] cases have found the tying arrangement to be unlawful." *Id.* at 13-14 (footnote and citations omitted). Similarly, in *United States Steel Corp. v. Fortner Enterprises, Inc.*, 429 U.S. 610, 620 (1977), the Court defined market power as "whether the seller has the power, within the market for the tying product, to raise prices or to accept burdensome terms that could not be exacted in a completely competitive market." *See also id.* at 620 n. 13 ("'market power in the sense of power over price must … exist. If the price could have been raised but the tie-in was demanded in lieu of the higher price, then - and presumably only then – would the requisite economic power exist.'") (quoting K. Dam, Fortner Enterprises v. United States Steel: *"Neither a Borrower Nor a Lender Be,"* 1969 Sup. Ct. Rev. 16, 25-26 (1969)).

The Rule of Reason has become the preferred method for assessing the potential for harm to competition in antitrust cases over the last thirty years. *See, e.g., Continental T.V.*, 433 U.S. at 49; *State Oil Co.*, 522 U.S. at 10. The Rule of Reason affords the necessary flexibility to distinguish those practices which pose no threat to competition, or which actually enhance competition, from those which do pose a threat to competition. Only in the limited circumstances where a seller has been shown to have market power in the relevant marked for the tying product has this Court departed from the Rule of Reason and applied a *per se* rule. *See, e.g. Eastman Kodak,* 504 U.S. at 464-78. As noted above, the antitrust plaintiff in such a case must define the relevant market, and establish that the defendant has appreciable market power within that market. *See Jefferson Parish*, 466 U.S. at 18; *Eastman Kodak,* 504 U.S. at 462 (explaining that "'appreciable economic power' in the tying product market" must be shown for a violation of Sherman Act § 1).

In addition, this Court has consistently moved toward fact-based inquiry into market power, and market definition. *Walker Process Equip., Inc. v. Food Machinery Chem. Corp.*, 382 U.S. 172, 177 (1965) ("Without a definition of that market there is no way to measure [the tying seller's] ability to lessen or destroy competition."); *see also Verizon Communs. Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398 (2004); *State Oil Co.*, 522 U.S. at 3; *Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209 (1993); *Spectrum Sports v. McQuillan*, 506 U.S. 447 (1993). According to the Federal Circuit's opinion below, however, where the tying product at issue is subject to a patent, the market area is automatically defined as nationwide, and market power is presumed. Pet. App. 15a. However, it has long been recognized that the existence of a patent or other form of protected intellectual property does not define a relevant product market or convey market power.

III. A PATENT DOES NOT DEFINE THE RELEVANT MARKET.

A patent does not define the relevant product market, and certainly does not establish, or even reasonably suggest, that the market for the subject of a patent is nationwide. At its most basic, a product market consists of a group of products or services that are reasonably interchangeable with each other. *United States v. E. I. Du Pont de Nemours & Co.*, 351 U.S. 377, 394-95 (1956); *Eastman Kodak*, 504 U.S. at 469 n.15. Usually, a patented product is only one out of many reasonably interchangeable products which make up the market of products within which it competes. *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1203 (2d Cir. 1981). The existence of non-infringing substitutes renders the market broader in terms of product definition than that defined by the patent. *See Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 872 (Fed. Cir. 1997) ("Violation of the antitrust laws always requires … market power in a defined relevant market

(which may be broader than that defined by the patent) ...."); *Brown Shoe Co. v. United States*, 370 U.S. 294, 325 (1962) ("The outer boundaries of a product market are determined by the reasonable interchangeability of use or the cross-elasticity of demand between the product itself and substitutes for it."). Furthermore, while a patent owner has the right to exclude others from making, using or vending the subject of the patent nationwide, that power to exclude is not synonymous with the product market or the boundaries of the geographic market within which the actual article competes with acceptable substitutes. In short, the existence of a patent on an ergonomic snow shovel does not contribute to the creation of a market for snow shovels, either ergonomic or acceptable substitutes, in the Florida Keys.

IV. A PATENT DOES NOT ESTABLISH MARKET POWER.

A. The Patent Monopoly Is Not Synonymous With Antitrust Monopoly.

In *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908) this Court held that in issuing a patent the government did not confer on the patentee the right to make, use or vend his own invention, as that right arose under the common law and not the Federal Patent Laws. The Court further held that it was not within the grant of power to Congress to enact patent laws granting such privileges and that therefore, they would not be implied. The Court further held that all the government conferred by the patent was the right to exclude others from making, using, or vending the patentee's invention.

Thus, the holder of a patent, copyright or trademark is granted a right to exclude, and is not granted a monopoly in the antitrust sense. In fact, the use of the term "the monopoly of the patent" is frowned on by the Federal Circuit. *Schenck v. Nortron Corp.*, 713 F.2d 782, 786 n.3 (Fed. Cir. 1983); *see*

United States v. Dubilier Condenser Corp., 289 U.S. 178, 186 (1933) (noting that a patent "is not, accurately speaking, a monopoly.") Intellectual property is precisely that: property, and, like any other form of property, cannot by itself be a proxy for market power. As Deputy Assistant Attorney General Delrahim recently explained:

> While an intellectual property right does confer the right to exclude others with respect to the work or invention within the scope of that right, it does not immediately confer upon the holder the ability to seek a monopoly rent. Close substitutes in the marketplace may foreclose the new product or technology from realizing any meaningful return, let alone gaining a monopoly position. In this respect, intellectual property assets are comparable to other kinds of property, and therefore, the Department applies the same general antitrust principles when assessing the market power held by an intellectual property owner as it would if the asset at issue were any other form of tangible or intangible property.

Makan Delrahim, "Contemporary Issues at the Intersection of Intellectual Property and Antitrust," at 5-6 (Nov. 10, 2004).[3]

As Mr. Delrahim correctly pointed out, a patent holder possesses exclusionary rights to control the production and sale of his product, and nothing more. It is in this respect identical to the fee simple owner of a piece of land who has the legal right to control the sale of his land. And while the patent holder has control over the rights to his product – just as the owner of a piece of land has control over the disposition of the land – he does not necessarily have a

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[3] Available for download at *http://www.usdoj.gov/atr/public/speeches/206607.pdf.*

market-wide monopoly or the ability to impose a anticompetitive tie-in. The existence of non-infringing substitutes renders that unlikely. As a result, it is erroneous to equate the patent's "statutory monopoly," with a market-wide monopoly[4] or even with market power. Assistant Attorney General for Antitrust R. Hewitt Pate recently made this clear when he explained that:

> While intellectual property grants exclusive rights, these rights are not monopolies in the economic sense: they do not necessarily provide a large share of any commercial market and they do not necessarily lead to the ability to raise prices in a market. A single patent, for example, may have dozens of close substitutes. The mere presence of an intellectual property right does not permit an antitrust enforcer to skip the crucial steps of market definition and determining market effects.

R. Hewitt Pate, "Competition and Intellectual Property in the U.S. *Licensing Freedom and the Limits of Antitrust,"* at 13-14 (June 3, 2005).[5]

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[4] *Cf. United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1933) in which the Court stated that a patent "is not, accurately speaking, a monopoly." *Id.* at 186. The Court continued, noting that a monopoly takes something from the people, whereas a patentee takes nothing from the people, but instead, in expiration of the patent, gives his knowledge to the people. *Id.*

[5] Available for download at *http://www.usdoj.gov/atr/public/speeches/209359.pdf.*

B. Mere Issuance Of A Patent Cannot Confer Market Power.

As noted above, tie-ins are only condemned when "power in the market for the tying product is used to create *additional* market power in the market for the *tied* product." *Jefferson Parish,* 466 U.S. at 37 *(*footnote omitted). In such a case, the theory is that economic power in the tying product can be used to force buyers into purchases they would not have made absent the tie. However, a particular tying arrangement may have pro-competitive justifications, and it is thus inappropriate to condemn such an arrangement without considerable market analysis. *National Collegiate Athletic Ass'n. v. Board of Regents*, 468 U.S. 85, 104, n. 26 (1984); *Jefferson Parish*, 466 U.S. at 11-14. Anticompetitive forcing only exists if consumers are forced to buy a tied product as a result of the seller's market power, not simply because of the desirability of the package. *Jefferson Parish*, 466 U.S. at 24-25. Only in those cases where anticompetitive forcing is likely should *per se* condemnation of a tie-in arrangement be made without an inquiry into actual market conditions. Such a conclusion, however, cannot be drawn from the simple fact that a product is patented or copyrighted.

1. The presence of a patent or copyright does not equate to the desirability of a product in the market.

No product can provide a basis for market power if it is not desirable to consumers. That a tying product is patented or copyrighted does not serve as an indicator that there is any demand for the product in the marketplace. Product desirability is not a requirement for the grant of a patent or the establishment of a copyright. Nor is the likelihood of commercial success a requirement. Thus, a patented or copyrighted product may or may not be desirable, just as any non-legally differentiated product may or may not be

desirable. As a result, the fact that a product is patented or copyrighted cannot be said to create a demand for the product. In fact, the majority of patents and copyrights enjoy little or no demand, and thus little or no monopoly power. The reason for this is simple. "Absent demand for a product . . . there can be no commercial success. No patent can itself create market demand. A patent on the unwanted is worthless." *Nickola v. Peterson,* 580 F.2d 898, 914 (6th Cir. 1978).

Even where there is a demand for a product type, competition among acceptable substitutes eliminates the possibility of forcing, just as it does among non-legally differentiated products. A seller of a legally differentiated tying product lacks the power to permanently foreclose tied product competition where he has no potential to generate a supernormal profit on separate sales of the tying product. Competition eliminates this potential. Only if both buyer and seller anticipate benefit will a sale occur. Buyers will not pay more than the value of the product to them. Sellers of legally differentiated products therefore compete for a portion of the total market for that general product type. Because the products are legally differentiated, buyers have a basis for preference among the variants and buyers and sellers will be paired according to these preferences. Thus, this is not perfect competition. Because of these consumer preferences, sellers can raise the price of their goods without losing every buyer, as individual preferences may outweigh the disincentive of the higher price. Nevertheless, neither differentiation nor the pairing process establishes *per se* the existence of, or the potential for, supernormal profits.

The existence and continual introduction of competing variations of the product reduces the demand for any one variation. Because each variant approximates the function of other variants in the market, price competition by each substitute severely reduces the ability of any one seller to exact a high price for his particular variation, even though it

may be the preferred variant. As a result, no seller has the potential to make excess profits. Because competitors will continue to introduce competing products, the market for the general product type becomes saturated with acceptable substitutes, and this saturation drives the price down until it no longer covers total costs. Thus, the long-run equilibrium of the market does not contain the possibility for market wide supernormal profits.

In any market, barriers to entry may exist which restrict the ability of competitors to introduce acceptable variants of the product type. Further, differences between competitors as to costs and unequal consumer preferences may result in a wide range of profitability among competing firms. Nevertheless, this divergence cannot be said to exist as a result of the fact that a product variant is covered by a patent or copyright. The barrier to entry is the inability of competitors to introduce acceptable, cost effective product variants. It is not because of the prohibition against unauthorized use or duplication of one particular product variant. In this respect there is no difference between legally differentiated and non-legally differentiated products. What the conditions are within any particular market is a question which cannot be resolved by an overly inclusive presumption. The possibility of supernormal profits in a particular market calls for a factual study, not a presumption of law.

The situation becomes even more complicated where two products which are tied together are considered. Obviously, the demand of a tying product is diminished where buyers have no interest in the tied product or prefer to purchase the tied product elsewhere. As a result, the seller must discount the price of the tying arrangement sufficiently to prevent the loss of these buyers. The seller's compensation lies in the increase sales of the tied product.

Where the seller lacks the ability to extract supernormal profits on separate sales of the tying product, it

is next to impossible to impose an anticompetitive tie as it will not be accepted by purchasers. Even when a seller of a desirable patented product seeks to exact a higher price for that product in the form of a tie-in, buyers in the market will switch to a competitors unencumbered product. In part, consumer price sensitivity is determined by the availability of suitable substitutes. The presence of acceptable substitutes necessarily results in a reduced demand for the tying product as a result of the tying arrangement. Some buyers, because of a strong preference, will be willing to pay more than the seller's profit-maximizing price, and thus a seller might be able to impose an anticompetitive tie on those purchasers. Nevertheless, the seller must discount the price or else face the loss of those buyers of the tying product whose preference is not so strong. Further, this discounting must be extended to all tying product purchasers to prevent arbitrage. If the seller fails to discount his price, the ultimate result will be that demand for his tying product will drop below the optimum output for that product, at which point average total cost will exceed price. The bottom line is that, whether the product is legally differentiated or not, in the absence of the potential for supernormal profits in the tying product, a seller cannot use a tie to increase the sales of a tied product without price-discounting.

As the above explains, the mere fact that a seller's tying product is patented or copyrighted does not prove the availability of an extension of supernormal monopoly profits. As a result, concern over extension of monopoly profits cannot be used to justify condemnation of all tying involving patented or copyrighted tying products. The conditions of the relevant market determine the existence of market power, not the status of the tying product as protected intellectual property. As the above analysis demonstrates, the existence of a patent or copyright provides little, if any, evidence of the existence of or potential for supernormal profits, or the

existence of barriers to entry,[6] the nature of consumer preferences, or the absence of adequate substitutes. Therefore, because its existence does not adequately reflect these market features, it cannot stand as a substitute for an analysis of them in answering the question of whether a product has market power.

In sum, because the use of a patent or copyright as a tying product is uninformative as to the market conditions in operation in a given case, the law cannot justify condemning all tying cases involving patented or copyrighted products as the only or least socially burdensome means available to prevent the extension of monopoly profits. This presumption requires the acceptance of a fiction of economic power, while it dispenses with the requirement that anti-competitive effects be demonstrated before liability will attach. Because the presence of a patent or copyright cannot serve as a reliable indicator of market power, the presumption is unjustifiably overly inclusive.

2. The presence of a patent or copyright does not protect the owner from competition from substitutes for the tying seller's product.

The presumption that a legally differentiated tying product has market power also exaggerates the real level of protection granted to the owner of intellectual property. The owner of intellectual property is confronted with multiple impediments in his attempt to exclude others, including but not limited to confronting narrowly drafted claims, persons

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[6] *See* 2 Phillip E. Areeda & Donald F. Turner, *Antitrust Law* 300 (1978) ("[P]atents . . . are not insurmountable entry barriers. Unlike direct entry controls, which block entry even through the would-be entrant can match or beat the costs of [the] existing firm, patents offer no protection against the entrant who develops and offsetting or comparable but non-infringing innovation.").

inventing around the patent, non-infringing alternatives, difficulty in obtaining preliminary injunctions, widespread disrespect for the patent, inadequate means to mount an attack on infringers, the high cost of litigation, the impact of litigation on the return on investment and possible adverse impacts on company stock, not to mention the legal impediments to enforcement. *See* Robert H. Hoerner, *Selected Articles from "The Cutting Edge Of Antitrust: Market Power": The Antitrust Significance of a Patent's Exclusionary Power,* 60 Antitrust L.J. 867 (1992/1992).

The presumption of market power only stands to reason if the exclusionary rights afforded by patent or copyright protection actually prevented the tying seller's competitors from marketing acceptable substitute products to consumers in the relevant market. However, the exclusionary rights afforded to patented or copyrighted property is not that expansive. Thus the question to be asked in determining the existence of market power is not the patent infringement question of whether the patent at issue operates as a barrier which prevents competitors from offering a substitute for performing the operation in the same manner as does the patented product. Rather, the proper tying case inquiry is whether the competitors of the seller of a tying arrangement are, by virtue of the patent, prevented from offering non-infringing yet functionally equivalent products.

A patent does not function to protect the patentee from competition by functionally equivalent products. For example, there are a number of computer printers on the market, all of which are patented. Plainly, the patents involved do not protect the patentees against competitor's sales of functionally equivalent products. Further, competitors are free to "invent around" a patent, and, in the case of a desirable tying product, would have an economic incentive to do so. Thus, while a patent can prevent competitors from producing a product which performs a task in the same way as the patented product, it cannot prevent suitable non-

infringing substitutes from entering the market. This point was recognized by Justice Black, writing for the majority in *Northern Pacific*, when he pointed out that "the economic power resulting from the patent privileges is slight." 356 U.S. at 10 n. 8. Similarly, Justice O'Connor noted in *Jefferson Parish* that "a patent holder has no market power in any relevant sense if there are close substitutes for the patented product." 466 U.S. at 37 n. 7.

An accurate analysis of market power in a relevant market is critical for determining its existence before attaching liability. Only rarely should limitations on the *per se* rule be compromised. *See Continental T.V.,* 433 U.S. at 58-59 (explaining that any "departure from the rule-of-reason standard must be based upon demonstrable economic effect rather than . . . upon formalistic line drawing"); *Northern Pacific.*, 356 U.S. at 5 (explaining that *per se* analysis is appropriate only for practices that have a "pernicious effect on competition and lack of redeeming virtue."). The market power presumption as applied by the Federal Circuit below does not meet this standard.

V. THE PRESUMPTION HAS BEEN SEVERELY CRITICIZED BY SCHOLARS, ENFORCERS, AND THE COURTS.

The notion that legally differentiated property conveys market power has been called into question repeatedly in the opinions of the courts. In *Northern Pacific*, this Court observed that "it is common knowledge that a patent does not always confer a monopoly over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the patent privileges is slight." 356 U.S. at 10 n. 8; *see also Walker Process*, 382 U.S. at 177-78 (noting in the context of a Section 2 case that "[i]t may be that the [patented] device . . . does not comprise a relevant market. There may be effective substitutes for the device which do not infringe the patent.").

The Courts below have in turn recognized that the presence of intellectual property does not automatically equate to the presence of market power. *See e.g., In re Independent Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325 (Fed. Cir. 2000) ("A patent alone does not demonstrate market power."); *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1368 (Fed. Cir. 1998) ("It is not presumed that the patent-based right to exclude necessarily establishes market power in antitrust terms. The virtually unlimited variety and scope of patented inventions and market situations militate against per se rules in these complex areas.") (citation omitted); *Virginia Panel Corp*, 133 F.3d at 869 ("[I]n the absence of market power, even a tying arrangement does not constitute patent misuse."); *Abbott Labs. v. Brennan*, 952 F.2d 1346, 1354 (Fed. Cir. 1991) ("A patent does not itself establish a presumption of market power in the antitrust sense. The commercial advantage gained by new technology and its statutory protection by patent do not convert the possessor thereof into a prohibited monopolist.") (citations omitted); *Loctite Corp. v. Ultraseal, Ltd.*, 781 F.2d 861, 875 n. 9 (Fed. Cir. 1985) ("[N]ot every patent confers market power."); *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1367 (Fed. Cir. 1984) ("[P]atent rights are not legal monopolies in the antitrust sense of that word."); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1203 (2d Cir. 1981) (dicta) ("When the patented product, as is often the case, represents merely one of many products that effectively compete in a given product market, few antitrust problems arise."); *see also Little Caesar Enters., Inc. v. Smith*, 34 F. Supp. 2d 459, 466 n. 10 (E.D. Mich. 1998) (granting partial summary judgment on tying claim because, notwithstanding defendant's copyrights, plaintiff had not set forth any evidence that defendant had "significant market power"); *Rockbit Indus. U.S.A., Inc. v. Baker Hughes, Inc.*, 802 F. Supp. 1544, 1549 n.3 (S.D. Tex. 1991) ("recent case law has rejected the presumption of market power from the possession of patents or unique products") (citations omitted); *Allen-Myland, Inc. v.*

International Business Machines Corp., 693 F. Supp. 262, 281 & n. 42 (E.D. Pa. 1988) (rejecting argument that patents establish sufficient economic power as a matter of law; following Justice O'Connor's concurrence in *Jefferson Parish*), *rev'd* on other grounds, 33 F.3d 194 (3d Cir. 1994), *cert. denied*, 513 U.S. 1066 (1994); *Telerate Sys., Inc. v. Caro*, 689 F. Supp. 221, 236 (S.D.N.Y. 1988) (holding that software developer failed to establish likelihood of success on tying claim due to inability to show market power (and other reasons), despite existence of copyright and trade secrets); *Nobel Scientific Indus., Inc. v. Beckman Instruments, Inc.*, 670 F. Supp. 1313, 1329 (D. Md. 1986) (granting summary judgment against tying claim because, notwithstanding defendants' patents, "there are readily available substitutes, available from many people"), *aff'd*, 831 F.2d 537 (4th Cir. 1987), *cert. denied*, 487 U.S. 1226 (1988); *3 P.M., Inc. v. Basic Four Corp.*, 591 F. Supp. 1350, 1359 (E.D. Mich. 1984) ("the fact that some of B/4's software is copyrighted does not establish that defendants possessed economic power"); *R & G Affiliates, Inc. v. Knoll Int'l, Inc.*, 587 F. Supp. 1395, 1404 (S.D.N.Y. 1984) ("it is not clear that the furniture that is patented actually is sufficiently distinctive to confer the required market power"); *see also Universal Bus. Computing Co. v. Comprehensive Accounting Corp.*, No. 82-C-3028, 1985 WL 1955, at *6 (N.D. Ill, June 24, 1985) (rejecting argument that copyright establishes sufficient market power as a matter of law); *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d at 1325-26 ("A patent alone does not demonstrate market power."); *Virginia Panel Corp.*, 133 F.3d at 872 ("Violation of the antitrust laws always requires ... market power in a defined relevant market (which may be broader than that defined by the patent) ...."); *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665, 673 n. 4 (7th Cir. 1985); *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 511 ("[O]f course, not every patent confers market power ...."); *Schlafly v. Pub. Key Partners*, No. 94-20512 SW, 1997 WL 564073, at *4 (N.D. Cal. Aug. 29, 1997) ("A patent does not of itself establish a presumption of market power in the antitrust

sense.") (citations omitted), *aff'd*, 155 F.3d 565, 570 (Fed. Cir. 1998) ("Mere possession of a patent, or a family of patents, does not establish a presumption of antitrust market power."); *F.B. Leopold Co. v. Roberts Filter Mfg. Co.*, 882 F. Supp. 433, 454 (W.D. Pa. 1995) (patent on porous plate, the tying product, insufficient to establish market power), *aff'd*, 119 F.3d 15 (Fed. Cir. 1997); *Chiuminatta Concrete Concepts, Inc. v. Target Prods, Inc.*, No. CV 92-1523 LBG (SX), 1992 WL 465720, at *4 (C.D. Cal. Dec. 2, 1992) (patent on certain skid plates, the tying products, insufficient to establish market power in tying claim), *aff'd*, 19 F.3d 41 (Fed. Cir. 1994).

Similarly, the federal agencies specifically charged by Congress with the duty to enforce the country's antitrust laws reject the notion that intellectual property ownership confers market power. The United States Department of Justice and the Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property note that "although the intellectual property right confers the power to exclude with respect to the *specific* product, process, or work in question, there will often be sufficient actual or potential close substitutes for such process, or work to prevent the exercise of market power." *Id.* at § 2.2 (emphasis in original). As a result, even in tying cases, the guidelines state that the agencies "will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner." *Id.* at § 5.3.

VI. THE PRESUMPTION CREATES A DIRECT CONFLICT BETWEEN TYING CASES AND THE PATENT MISUSE STATUTE.

A tying antitrust claim without the presumption of market power necessarily requires both sides to explore market issues. However, the presumption of market power shifts the bulk of the costs of the antitrust litigation to the patent owner. The presumption thus unfairly handicaps the

patent owner by easing the burden for the antitrust plaintiff, thereby increasing the risk to the patent owner. Moreover, the presumption may provide an incentive to circumvent the limitations Congress has imposed on the use of the patent misuse defense, encouraging plaintiffs to repackage it as an antitrust claim. In fact, Congress has made its intent clear that such a burden not be placed upon the owners of intellectual property.

The patent misuse defense set forth in 35 U.S.C. § 271(d)(5) was amended in 1988. Act of Nov. 19, 1988, Pub. L. No. 100-703 § 201, 102 Stat. 4674, 4676. In order for an accused infringer to establish the defense of patent misuse, the accused infringer must now demonstrate that the patentee has market power in the tying product. *See In re Independent Serv. Orgs. Antitrust Litig.*, 203 F.3d at 1325-26, and *In re Recombinant DNA Technology Patent & Contract Litig.*, 850 F. Supp. 769, 775-77 (S.D. Ind. 1994) (indicating that no presumption of market power would suffice to establish misuse under § 271(d)(5)). The statute proscribes in relevant part that:

> No owner of a patent otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief **or deemed guilty of** misuse or **illegal extension of the patent right** by reason of his having done one or more of the following . . . 5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

(emphasis added). Obviously, when confronted with a choice between two rules, one which requires an expensive showing of market power and one which offers a free presumption of its existence, the cost conscious and power sensitive litigant will choose the rule carrying the presumption. The question is whether the language of § 271(d)(5) acts to prohibit the operation of the presumption of market power in antitrust tying cases.

This question is of particular importance because, "[a]s the Supreme Court has said, the patentee's act may constitute patent misuse without rising to the level of an antitrust violation." *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 668 (Fed. Cir. 1986) (citing *Zenith Radio Corp. v. Hazeltine Research,* 395 U.S. 100, 140 (1969). The Federal Circuit's holding below turns this upside down. Furthermore, "where a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws." *SCM Corp.,* 645 F.2d at 1206. In fact, the Federal Circuit itself has held that conduct involving intellectual property that does not amount to patent misuse cannot be an antitrust violation. *Virginia Panel Corp.,* 133 F.3d at 872. The decision below in the case *sub judice* is in direct conflict with these holdings. It is also in direct conflict with the Congressional intent behind § 271(d)(5). In fact, because infringers will now file antitrust counterclaims in order to take advantage of the presumption, the holding of the Federal Circuit renders § 271(d)(5) a nullity, a construction the Court cannot allow. It is an "elementary canon of construction that a statute should be interpreted so as not to render one part inoperative." *Mountain States Tel. & Tel. Co. v. Pueblo of Santa Ana*, 472 U.S. 237, 249 (1985).

Some courts below have held that § 271(d)(5) impacts the application of the antitrust laws, *see e.g., Polysius v. Fuller,* 709 F. Supp. 560, 575-76 (E.D. Pa. 1989) (Under

271(d), absent market power, a party "cannot be guilty of either antitrust violations or patent misuse ....") *aff'd mem.,* 889 F.2d 1100 (Fed. Cir. 1989); *see also Intergraph Corp. v. Intel Corp.,* 195 F.3d 1346, 1362-63 (Fed. Cir. 1999); *Data Gen. Corp. v. Grumman Sys. Support Corp.,* 36 F.3d 1147, 1187 (1st Cir. 1994), while others have held that it does not. *See e.g., Grid Sys. Corp. v. Texas Instrs., Inc.,* 771 F. Supp. 1033, 1037 (N.D. Cal. 1991) ("Section 271(d) relates only to the defense of patent misuse as a defense to an infringement claim." *Accord, e.g. Image Tech. Servs. v. Eastman Kodak,* 125 F.3d 1195, 1214-15 n.7 (9th Cir. 1997). The plain language of the statute that a patent holder shall not be "deemed guilty of misuse or illegal extension of the patent right," indicates it applies to antitrust actions.

The assertion that the failure of Congress to also modify the antitrust laws indicates that any Congressional intent not to abolish the presumption is without merit. The plain language of the statue indicates that it applies to claims in addition to claims of patent misuse. It is not necessary that Congress also amend the antitrust statutes, as the plain language makes the intention clear. Furthermore, "in the absence of any persuasive circumstances evidencing a clear design that congressional inaction be taken as acceptance of [*International Salt* and *Loew's*], the mere silence of Congress is not a sufficient reason for refusing to reconsider the decision[s]." *Boys Mkts, Inc. v. Retail Clerks Union,* 398 U.S. 235, 242 (1970); *see also State Oil Co.*, 522 U.S. at 19 ("[i]n the context of this case, we infer little meaning from the fact that Congress has not reacted legislatively to [the Court's decisions]."). Having amended the misuse statute to apply to claims in addition to misuse, there is no necessity for Congress to also amend all affected judicial interpretations of other statutes.

VII. THE PRESUMPTION RESULTS IN UNJUSTIFIED SOCIAL COSTS.

The fact that the need to show market power where intellectual property is at issue is treated differently in Section 1 actions than it is in Section 2 and patent misuse actions demonstrates that there is no innate characteristic possessed by intellectual property which results in automatic market power. The unjustifiable outcomes that result from the presumption are well illustrated by this case. The Federal Circuit upheld summary judgment in petitioners' favor on the Section 2 theory because respondent made only conclusory allegations with respect to geographic market. Yet this inability to demonstrate market power failed to dispose of the Section 1 theory. The plaintiff was allowed to rely on the presumption of market power, even though it could not show that any market power existed in support of its Section 2 claim. The fact is, there is no functional reason for the existence of the presumption. It is merely an anachronistic legal incongruity.

The presumption imposes unjustified costs on the nation's economy. The presumption places infringers and others in a position to exact settlement payments from patent holders now facing the expense and the risk of treble damages inherent to antitrust trial. It does so by encouraging the filing of meritless lawsuits by plaintiffs hoping that the presumption will enable their claims to survive motions to dismiss or summary judgment. As a result, the presumption has the effect of unjustifiably increasing the cost of owning, disseminating and enforcing intellectual property rights. These increased costs ultimately discourage firms from investing in the development of intellectual property. thereby causing substantial harm to our economy. In light of the increasingly important role intellectual property plays as a driver of economic growth, this result is particularly harmful.

Baseless antitrust claims will deter patent owners from attempting to properly protect their patents from infringers. Similarly, the presumption invites infringers to circumvent Congressional intent as to the patent laws and to file meritless Section 1 counterclaims in infringement actions where the infringer cannot demonstrate market power, rendering § 271(d)(5) a nullity. A clear harmful effect in the practical application of the presumption is that it provides an incentive to patent infringement defendants to bring Sherman Act counterclaims against patentees who are only enforcing their patent rights by bringing infringement suits. Forcing the burden of proof onto the patentee to rebut a presumed market power element raises the likelihood antitrust claims that are meritless will survive motions to dismiss or for summary judgment. The patentee's infringement case diluted, as the patentee is forced to settle the infringement action to avoid the risk of treble damages and the expense of a full blown antitrust trial. This result is unjust and counter to the goals of both patent and antitrust law. Consistency in this area is needed and long overdue. The presumption of market power should be rejected.

CONCLUSION

For the foregoing reasons, this Court should reverse and vacate the judgment of the court of appeals.

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OFFICE OF THE CLERK

IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.,
Petitioners,

v.

INDEPENDENT INK, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF FOR RESPONDENT

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WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20001

QUESTION PRESENTED

Whether, in an action under Section 1 of the Sherman Act, 15 U.S.C. § 1, alleging that the defendant engaged in unlawful tying by conditioning a patent license on the licensee's purchase of a non-patented good, the plaintiff must prove as part of its affirmative case that the defendant possessed market power in the relevant market for the tying product, or whether market power instead is presumed based solely on the existence of a patent on the invention embodied in the tying product.

RULE 29.6 STATEMENT

Respondent Independent Ink, Inc. has no publicly traded stock, it has no parent company, and no publicly held company holds 10% or more of its stock.

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COUNTERSTATEMENT

The issue in this case is whether a seller of patented printheads may force customers to buy its ink rather than the ink of its competitors, which is of equal quality but offered at nearly one-third the price. Petitioners Illinois Tool Works Inc. and Trident, Inc. (collectively "Trident") seek to limit the ability of competitors like respondent Independent Ink, Inc., to challenge such arrangements as illegal tying under the antitrust laws. To be sure, patent law grants inventors some exclusive rights over their inventions in order to encourage innovation. And patent holders are allowed to charge monopoly prices for their inventions in order to recover their invention costs. But nothing in patent law permits a patent holder to extend the monopoly power conferred by a patent beyond the scope of that patent, for example, by using the patent to force customers to purchase a separate good. This case concerns the procedure for litigating antitrust claims against the use of patents to impose such anticompetitive tying arrangements.

This Court has long recognized a presumption that patented products used in such tying arrangements have market power, one element needed to prove a tying claim under the antitrust laws. This patent tying presumption has roots in Section 3 of the Clayton Act, 15 U.S.C. § 14, which was enacted in express response to a patent tying case. It also reflects decades of this Court's experience with patent tying arrangements. The presumption comports with the economic reality that, while many patents have little or no value, patents that are valuable frequently confer market power upon their holders, and it is these valuable patents that tend to be used in tying arrangements. The presumption also reflects the practical realities of patent tying litigation by providing a fair and efficient structure of proof.

Petitioners do not offer any persuasive reason for discarding this sensible presumption, which this Court has recognized and repeatedly reaffirmed for more than fifty years.

And this case would be a particularly inappropriate vehicle for overturning the presumption. As the factual record demonstrates, the presumption here was sensibly applied by the court of appeals. It allowed respondent Independent Ink, Inc., a long-time producer of high-quality specialty inks, to bring a strong patent tying claim without the debilitating and unnecessary expense that might have precluded the claim at the outset, while permitting Trident adequate opportunity to disprove alleged injury to competition upon remand.

A. The Dominant Market Position of Trident's Patented Printhead

This case concerns the tying of sales of Trident's piezoelectric ink jet printheads to the sale of replacement ink for those printheads for their entire working life. As Trident repeatedly acknowledged prior to the underlying litigation, it "dominates the inkjet printhead market" due to the patents it holds on on its printhead technology. J.A. 256a, 260a, 262a. Trident manufactures printheads that are sold to original equipment manufacturers (OEMs) who integrate them into computer-controlled ink jet printers. J.A. 74a. Trident has licensed its printhead technology to OEMs making well over 95% of high resolution ink jet systems for carton coding applications. J.A. 18a, 373a. Since this ink jet technology was introduced, demand for industrial ink jet printers has risen from $25 million in 1994 to over $140 million in 1999. J.A. 26a, 82a, 264a. Trident accounted for virtually all of those sales prior to 1999, and still captures 85% of sales. J.A. 20a, 333a, 348a, 373a.

Trident's printheads are primarily used in product manufacturing to print text, bar codes, and graphics directly onto blank cartons as those cartons move down an assembly or production line. J.A. 74a. The printheads are particularly well-suited to this function, and to bar coding in particular, because they combine the reliability and high resolution needed for such codes with the high speeds needed to inte-

grate printing into an assembly or production line. J.A. 77a-78a; *see also* J.A. 78a (discussing the demand for bar coding). Trident printheads are able to combine these different qualities by employing piezoelectric technology that uses electronic pulses to cause tiny changes in the shape of a ceramic crystal that can propel droplets of ink out of the printhead at rates as high as 10,000 droplets per second. J.A. 87a-88a. In addition, because the printhead operates digitally, it can be programmed to print individualized bar codes without slowing down the production line. J.A. 78a.

Alternative technologies such as preprinted boxes, labels, and other types of printers cannot offer the same functionality as Trident's piezoelectric printheads. J.A. 77a-78a. Although since the start of this lawsuit, two companies, Markem and Xaar, have introduced industrial ink jet printers, they employ different technologies than Trident's patented printhead and have significant drawbacks. J.A. 171a, 188a. Unsurprisingly, Markem and Xaar have been unable to undermine Trident's dominant position. Neither had any appreciable sales before 1999, and by 2001, the most recent year of sales information in the record, they accounted for less than 15% of the industrial ink jet sales. J.A. 20a, 333a, 373a.

Trident's dominance of the market for industrial carton coding is widely acknowledged. According to one industry analysis, "Trident is the only game in town" for industrial ink jet printers. J.A. 267a. The president of the largest printer OEM similarly recognized that Trident had "no real competition in the Hi-Resolution carton coding market." J.A. 375a. And Trident's customers confirmed—and bemoaned—Trident's market dominance. According to a survey conducted by Trident, its customers lamented that there were "no alternatives" to Trident's patented technology and that Trident had "no competition." J.A. 395a-96a, 398a. Indeed, the customers were "hoping for competition" so that they could use it "as a lever against Trident." J.A. 397a, 402a.

B. Trident's Attempts to Dominate Ink Sales

In a blatant end run around settled law prohibiting tying sales of a patented product to sales of a separate product, Trident forbid its OEM customers and the end users of its patented printhead technology from using replacement ink from third parties such as Independent Ink. Trident licenses OEMs to manufacture, use, and sell equipment that incorporates Trident printheads only "*when used in combination with ink and ink supply systems supplied by TRIDENT.*" J.A. 95a, 226a (emphasis added). Moreover, Trident's contracts with OEMs provide that the license to use Trident's patented technology "shall also extend to any customer of BUYER purchasing or otherwise acquiring the LICENSED PRODUCT from BUYER . . . ." J.A. 103a, 233a. Accordingly, prior to this suit, Trident contended that "[u]se of these third-party inks would be an unlicensed activity by the OEM and its end-user customer." J.A. 93a; *see also* J.A. 220a (asserting that Trident can sue for patent infringement if "a customer of a Trident customer uses non-Trident ink").[1]

Trident's customers and end users chafed under those restrictions. In its customer survey, nearly 60% of the responses complained about the restrictions on using ink from third parties such as Independent Ink, J.A. 394a, 399a, and about the "tremendous price" they were paying for Trident replacement ink, J.A. 447a; *accord* J.A. 391a, 394a, 409a. At least one customer was upset by Trident's failure to provide ink consumption rates, J.A. 396a, which prevents accurate estimates of the total cost of using a Trident printhead over its

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[1] Citing the trial court's opinion, Trident asserts that its licenses permit end users to purchase ink from third party manufacturers. Pet. Br. at 4 (citing Pet. App. 21a-22a). The trial court made no such finding. It simply noted Trident's *contention* that its licenses did not prevent end users from purchasing ink from third party manufacturers. Pet. App. 21a. Moreover, the court went on to observe that Trident's internal memoranda contradicted this contention. *Id.*

lifetime. Finally, Trident's customers and end users also said that they were "hoping for competition" and "looking forward to the possibility of competitive inks." J.A. 391a, 394a.

C. Independent Ink's Efforts to Compete for Ink Sales

Seeking to fill the demands of Trident's customers, Independent Ink, a long-time producer of high-quality specialty inks, developed inks for Trident's patented printheads, as did several other competitors. The ink used in Trident's printheads must be specifically designed to meet the operational requirements of these printheads, which ordinary inks cannot satisfy. J.A. 378a, 455a-56a. Independent Ink developed an ink that is chemically indistinguishable from the ink that Trident itself developed for use in these printhads. J.A. 519a-23a. Trident officials acknowledged internally that Independent Ink has a reputation for quality and ingenuity. J.A. 504a.

Independent Ink offered its replacement ink at prices from 60% to 70% less than Trident's ink prices. J.A. 117a (noting that Trident charged end users $325 a bottle for replacement ink, while Independent Ink charged only $125 to $189 per bottle). Other companies similarly offered replacement ink at a fraction of Trident's prices. J.A. 412a.

Trident reacted aggressively to this competition not by lowering its ink prices, but by trying to exclude its competitors from the ink market. It tried to convince OEMs and end users that use of inks from third parties would damage their machines. J.A. 442a. It falsely asserted that its competitors' inks would cause corrosion, clogging, and even fires. J.A. 461a. It even produced brochures, presentations, and a web page showing pictures of clogged and highly corroded printheads, implying that these problems were caused by its competitors' inks. J.A. 442a, 467a-68a. In fact, however, Trident did not know whether the damage in these pictures was caused by its own ink or that of its competitors, J.A. 480a-82a, and it conceded that it had no evidence that ink

from Independent Ink had ever caused any clogging or corrosion problems. J.A. 476a-78a.

Trident also bullied its licensees and their distributors into complying with the tying arrangement specified in its licenses. For example, it issued bulletins warning that "under no circumstances does anyone other than Trident have any license to supply you with ink for Trident products." J.A. 117a, 121a. It threatened to cut off the supply of printheads to OEMs who continued to sell or use competitors' inks, J.A. 273a, 420a, and it even threatened to sue its customers and end users if they dared to use competitors' ink. J.A. 20, 273a.

Finally, Trident took legal action. It sued Independent Ink and three other replacement ink suppliers for patent infringement in December 1997 in the Southern District of Illinois. Pet. Br. at 4. Because Independent Ink has no meaningful contacts in that district, it was dismissed from the suit for lack of personal jurisdiction. *Id.* at 3-4.

D. The Proceedings Below

This case was brought by Independent Ink in August 1998 in the Central District of California. Independent Ink sought a declaration that it did not infringe upon Trident's patents by selling ink to end users. Pet. App. 3a. Trident counterclaimed for patent infringement, and Independent Ink amended its complaint to allege that the restrictions upon purchasing ink imposed by Trident's patent licenses constituted an illegal tying arrangement. *Id.* Independent Ink also alleged monopolization and various state law claims. *Id.*

After Trident's infringement claims were dismissed with prejudice, Pet. App. 3a n.1, the trial court entertained summary judgment motions on the tying and monopolization claims. It denied Independent Ink's motion, but granted summary judgment for Trident on both of Independent Ink's antitrust claims. Pet. App. 56a. Focusing on market power to the exclusion of the other elements of Independent Ink's tying

claim, Pet. App. 29a & n.7, the court found that Independent Ink had failed to raise a genuine issue on this point because it did not offer a market share analysis examining the cross-elasticity of demand, the range of substitutes, or potential sources of supply. Pet. App. 38a-48a, 50a-53a. The trial court acknowledged in a footnote that decisions of this Court have recognized a presumption of market power in patent tying cases, but it dismissed these decisions as "vintage" cases inconsistent with the "real proof of market power" now required. Pet. App. 30a-38a & n.10. The parties then stipulated to dismissal of the remaining claims, and Independent appealed the antitrust rulings. *See* Pet. App. 57a.

The Federal Circuit affirmed the grant of summary judgment to Trident on Independent Ink's monopolization claim, but reinstated Independent Ink's tying claims. The court noted the "long history of Supreme Court consideration of the legality of tying arrangements." Pet. App. 5a. It observed that the Court had found a patent tying arrangement unreasonable in *International Salt Co. v. United States*, 332 U.S. 392 (1947), without making an inquiry into market power, and that a subsequent decision, *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), recognized that *International Salt* implicitly held "that, where the tying product is patented or copyrighted, market power may be presumed." Pet. App. 8a. The court of appeals also observed that subsequent decisions of this Court have "consistently reaffirmed the holdings of *International Salt* and *Loew's* that no proof of market power is necessary in patent or copyright tying cases," Pet. App. 9a, and rejected Trident's suggestion that these cases had been overruled by intervening decisions. Pet. App. 11a-14a.

The court of appeals also held that the presumption of market power is rebuttable, but that Trident had failed to rebut the presumption in opposing Independent Ink's summary judgment motion. Trident presented evidence that some package manufacturers were using preprinted labels rather

than coding cartons directly with ink jet printheads. Pet. App. 14a-15a. The court, however, held that the mere existence of an alleged substitute is not enough to rebut the presumption of market power; instead, an antitrust defendant must present some credible evidence of cross-elasticity of demand, the area of effective competition, or lack of market power. Pet. App. 16a-17a. The court of appeals reversed the grant of summary judgment to Trident on Independent Ink's tying claim, but declined to grant partial summary judgment to Independent Ink on the element of market power. Instead, it remanded to give Trident an opportunity to supplement the record to show that it lacked market power in the relevant market for ink jet printheads. Pet. App. 17a.[2]

SUMMARY OF ARGUMENT

Petitioners would have this Court overturn a presumption of market power in patent tying cases that it has recognized and repeatedly reaffirmed for over fifty years. As petitioners and the Government portray the presumption, it is a sweeping rule that supposedly invalidates *per se* many procompetitive tying practices without justification because "a large percentage of patents produce little or no economic value." Pet. Br. at 25. Petitioners paint a benign picture of tying arrangements and a dire picture of the market power presumption, suggesting that the presumption somehow encourages everything from meritless patent tying litigation to the death of innovation itself. *See* Pet. Br. at 27-34.

These dire predictions are baseless. This Court has presumed that the use of a patent to compel the purchase of a separate product confers market power since at least its 1947

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[2] Independent Ink filed a cross-petition for a writ of certiorari presenting the question whether the presumption of market power is irrebuttable. Because that cross-petition is still pending as of the date of this brief, Independent Ink confines the brief to the question whether the court of appeals correctly held that there is a rebuttable patent tying presumption.

decision in *International Salt Co. v. United States*, 332 U.S. 392 (1947). In the decades since, there has been no evidence of the harms petitioners warn of. This is unsurprising, for the market power presumption is far narrower than petitioners assert. It does not automatically invalidate patent ties, but merely provides a fair and efficient way of structuring proof of a single element in a prima facie case of illegal patent tying.

This presumption rests on a solid legal and economic basis. Petitioners spend much energy arguing that patents in general are unlikely to confer market power, Pet. Br. at 23-27, but ignore the key question whether patents *used to impose challenged tying arrangements* are likely to confer market power. In fact, those patents that are actually used in tying arrangements and are actually targeted by antitrust claims are likely to be highly valuable patents, and highly valuable patents are likely to confer market power. Only a highly valuable patent can be used to force customers to buy a distinct product that they otherwise would not purchase, especially at a price they do not want to pay. Thus, despite petitioners' and the Government's suggestions, economic reality favors maintaining the presumption.

The patent tying presumption also effectively addresses the practical realities of patent litigation. It permits consumers and small businesses with limited resources to bring meritorious tying claims without incurring the prohibitive cost of unnecessary and often extremely burdensome market share analysis that is, in any event, more efficiently addressed by defendants in the first instance. At the same time, because the patent tying presumption affects only the market power element of a tying claim, plaintiffs still bear the burden of proving the other elements of a tying claim, and defendants retain their affirmative defenses. These other elements and defenses will screen out liability for any ties that are genuinely procompetitive. In addition, the presumption's ease of

administration enables patent tying claims to be litigated more efficiently.

The facts of this case illustrate the sensible way in which the patent tying presumption allows plaintiffs to police anti-competitive patent tying arrangements. Trident, a conglomerate with sales of $11 billion a year that is the dominant producer of a patented print technology for industrial ink jet printers, conditioned licenses to use its patented printheads upon the purchase of replacement ink solely from Trident and not any of its competitors. Respondent Independent Ink, a specialty-ink manufacturer with about $5 million in annual sales that is known for innovation and high quality, sought to sell replacement ink of equal quality at a fraction of Trident's price. Trident responded by bullying its customers into not buying ink from Independent Ink, and then sued Independent Ink for patent infringement before these antitrust claims were filed.

The patent tying presumption made it possible for a small business such as Independent Ink to challenge Trident's blatant tying arrangement without incurring the prohibitive expense of hiring experts to engage in unnecessary market share analysis. Trident declined to offer any such evidence of its own, even though it has far readier access to information on its own market share and rival industrial ink jet printers than Independent Ink does. (The court of appeals, however, interpreting the market power presumption to be rebuttable, left it open to Trident to make such a showing on remand.) Trident has offered no persuasive reason why fifty years of settled law should be overturned to relieve it of this limited and entirely sensible burden.

The patent tying presumption should once again be reaffirmed. Moreover, even if this Court should decide to overturn or modify the presumption, it should affirm the court of appeals on the alternative ground that the record contains direct evidence of market power sufficient to defeat Trident's summary judgment motion. Market power in the tying con-

text means the power to "force a purchaser to do something he would not do in a competitive market." *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 13-14 (1984). As Trident's own customer survey in the record shows beyond dispute, for years Trident forced its consumers to accept an unwanted condition and pay nearly three times the cost of Independent Ink's products for Trident's chemically indistinguishable ink, despite widespread and persistent customer dissatisfaction. Such direct evidence confirms that the patent requirements tie in this case was an exercise of Trident's market power.

ARGUMENT

In asking this Court to reject the presumption that patents used to impose tying arrangements confer market power, Trident is seeking to overturn a rule that the Court has recognized and repeatedly reaffirmed for more than fifty years. This Court wisely approaches such requests "with the utmost caution." *State Oil Co. v. Khan*, 522 U.S. 3 (1997).

The doctrine of *stare decisis* recognizes that adherence to precedent serves important purposes: it promotes stability by allowing individuals and businesses to rely upon legal decisions in ordering their affairs, *see, e.g.*, *Square D. Co. v. Niagara Frontier Tariff Bureau, Inc.*, 476 U.S. 409, 423 (1986); it encourages public confidence in and respect for the law, *see, e.g.*, *Smith v. Allwright*, 321 U.S. 649, 669 (1944) (Roberts, J., dissenting); and it improves judicial decision-making by recognizing that longstanding decisions reflect the "wisdom of this Court as an institution transcending the moment." *Welch v. Tex. Dep't of Highways & Pub. Transp.*, 483 U.S. 468, 479 (1987) (quotation omitted).

To overcome the force of *stare decisis*, Trident must shoulder the heavy burden of showing that the existing rule has defied "practical workability," that there has been a change in law rendering the old rule obsolete, or that facts have changed

so much as to have "robbed the old rule of significant application or justification." *Planned Parenthood v. Casey*, 505 U.S. 833, 854-55 (1992). As explained below in Parts I-III, Trident has failed to meet that burden, offering no showing that the presumption is unworkable, nor pointing to changes in law or fact sufficient to justify abandoning decades of precedent.

Trident asserts that *stare decisis* has little force in antitrust law because Congress intended antitrust law to develop through common law reasoning. Pet. Br. at 14-15 (citing *State Oil*, 522 U.S. at 3). This assertion ignores the *statutory* origins of the prohibition on patent tying arrangements, which demonstrate that Congress did not intend *tying* doctrine to develop through common law reasoning alone. *Cf. Patterson v. McLean Credit Union*, 491 U.S. 164, 172-73 (1989) (noting that *stare decisis* applies with special force to statutory interpretation).

In 1914, partly in response to a decision by this Court enforcing a patent tying arrangement, Congress enacted Section 3 of the Clayton Act.[3] Section 3 makes it unlawful "to lease or make a sale or contract for sale of goods, . . . whether patented or unpatented" on the condition that the purchaser shall not use the goods of a competitor where the condition may substantially lessen competition or tend to create a monopoly. 15 U.S.C. § 14. This provision of the Clayton Act was intended to "strengthen the Sherman Antitrust Act."[4]

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[3] *See* 3 THE LEGISLATIVE HISTORY OF THE FEDERAL ANTITRUST LAWS AND RELATED STATUTES 2129-30 (Earl W. Kintner ed., 1978) [hereinafter LEGISLATIVE HISTORY] (statement of Sen. Walsh) (introducing legislation in order to prevent the imposition of tying arrangements like the one upheld in *Henry v. A.B. Dick Co.*, 224 U.S. 1, 35 (1912) (involving a license on a patented mimeograph machine for use only with paper, ink and other supplies sold by the patent holder)).

[4] LEGISLATIVE HISTORY, *supra*, at 1997 (statement of Sen. Reed); *see id.* at 1991-94 (statement of Sen. Reed) (noting that, while using a patent

Together, the Clayton Act and the Sherman Act weave a statutory web of protection against anticompetitive behavior, *see, e.g.*, *id.* § 12(a) (defining the "Antitrust laws," as modified by the Clayton Act, to include the Sherman Act); *id.* § 15 (providing, under the Clayton Act, private standing to enforce the Sherman Act and recover damages), and this Court has held that in tying cases arising under the Sherman Act, the congressional findings made in the Clayton Act "must be respected." *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 11 (1984). *See also* 1 ABA Section of Antitrust Law, ANTITRUST LAW DEVELOPMENTS 179 n.997 (5th ed. 2002) (noting that courts apply essentially identical standards in tying cases under the Sherman and Clayton Acts).

In any event, even in ordinary antitrust cases, a persuasive justification is required to overrule precedent. *See, e.g.*, *Square D. Co.*, 476 U.S. at 423; *Ill. Brick Co. v. Illinois*, 431 U.S. 720, 736 (1977); *Flood v. Kuhn*, 407 U.S. 258, 282-85 (1972). Trident has offered no such justification.

I. PETITIONERS SEEK TO OVERTURN FIFTY YEARS OF SETTLED LAW PRESUMING THAT PATENTS HAVE MARKET POWER WHEN USED TO REQUIRE THE PURCHASE OF SEPARATE GOODS

Trident asserts that the market power presumption in patent tying cases "rests on an extraordinarily weak foundation." Pet. Br. at 10. Some of Trident's *amici* go even further, questioning whether this Court has ever recognized a presumption

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to impose a tying arrangement "will at first strike us as being plainly in violation of the Sherman Antitrust Act," the Court had held that "'Congress alone has the power to determine what restraints [on patent holders] shall be imposed,'" and therefore if patent tying arrangements are not prohibited by "legislative act[,] the evil will go unchecked") (quoting *A.B. Dick*, 224 U.S. at 35).

of market power in patent tying cases at all. *See, e.g.*, Gov't Br. at 18-24.

These contentions are without merit. As the court of appeals found, this Court has recognized a presumption of market power where a patent is used to require purchase of a separate good since at least its 1947 decision in *International Salt Co. v. United States*, 332 U.S. 392 (1947), and the Court has explicitly and repeatedly reaffirmed this presumption. Contrary to petitioners' contention that this Court's settled law rests on "scant analysis," Pet. Br. at 15, this Court in fact has based the presumption on decades of precise experience with patent cases that, like this one, involve requirements ties—tying arrangements "where customers who purchase one product from a firm are required to make all their purchases of another product from that firm." Dennis W. Carlton & Jeffrey M. Perloff, MODERN INDUSTRIAL ORGANIZATION 321 (4th ed. 2005); *see also* Nalebuff *et al.* Br. at 5-6 (providing more precise definition).

In *International Salt*, the Court considered an antitrust challenge to a requirements tie. The defendant in that case held patents for salt processing machines, and it conditioned the lease of these machines upon the purchase of the salt needed to operate them. *See Int'l Salt*, 332 U.S. at 394. After the defendant admitted to this tying arrangement in its answer, the Government moved for and obtained summary judgment. Although the defendant claimed that there were competing salt machines, it did not present any evidence of such competition. *See id.* (noting that neither party submitted affidavits). Instead, the defendant argued that the Government had failed to present sufficient evidence that the defendant dominated the salt industry to warrant summary judgment. *See* Br. of Appellant at 30-31, *Int'l Salt v. United States*, No. 46 (U.S. Sept. 24, 1947) (citing *F.T.C. v. Sinclair Ref. Co.*, 261 U.S. 463 (1923)); *see also Standard Oil Co. of Cal. v. United States*, 337 U.S. 293, 304 (1949) (noting that

Sinclair Refining recognizes the importance of "a showing that the supplier dominated the market"). Implicitly presuming that there was market power, this Court disagreed and upheld the grant of summary judgment. *Int'l Salt*, 332 U.S. at 396.

Since 1949, the Court has explicitly recognized this patent tying presumption. *See Standard Oil*, 337 U.S. at 303-07. Less than two years after *International Salt*, in considering whether the presumption recognized in that case applies to requirements contracts, the Court observed that "[a] patent, . . . although in fact there may be many competing substitutes for the patented article, is at least prima facie evidence of [market] control." *Id.* at 307. The Court repeated this observation in cases over the next decade. *See N. Pac. Ry. Co. v. United States*, 356 U.S. 1, 18 (1958) (Harlan, J., dissenting) (noting that *International Salt* "simply treated a patent as the equivalent of proof of market control"); *Times-Picayune Publ'g Co. v. United States*, 345 U.S. 594, 608 (1953) ("Patents, on their face, conferred monopolistic . . . market control."). Then, in 1962, in *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), this Court endorsed (and expanded) the patent tying presumption. Citing *International Salt*, the Court held that in tying cases "[t]he requisite economic power is presumed when the tying product is patented . . . ." *Id.* at 45-46.

Since *Loew's*, the Court has repeatedly recognized and reaffirmed the presumption that patents used to impose a tie confer market power. *See, e.g., Jefferson Parish*, 466 U.S. at 16 (noting that it is "fair to presume" that a seller imposing a patent tying arrangement has market power); *U.S. Steel Corp. v. Fortner Enters., Inc.*, 429 U.S. 610, 619 (1977) ("*Fortner II*") (noting that the "statutory grant of a patent monopoly . . . give[s] rise to a presumption of economic power"); *Fortner Enters. v. U.S. Steel Corp.*, 394 U.S. 495, 503 (1969) (quoting *Loew's* for the proposition that the necessary showing of market power "may be inferred from the tying product's de-

sirability to consumers or from uniqueness in its attributes"). Indeed, it was not until 1984 that the patent tying presumption was ever questioned in this Court, *see Jefferson Parish*, 466 U.S. at 37 n.7 (O'Connor, J., concurring), and even then, a majority of this Court expressly endorsed and reiterated the presumption: "if the government has granted the seller a patent or similar monopoly over a product," the majority reasoned, "it is fair to presume that the inability to buy the product elsewhere gives the seller market power." *Id.* at 16.

When the Court adopted this presumption in *International Salt*, it already had the benefit of decades of experience with patent tying cases and with requirements ties in particular. In fact, the Court considered a requirements tie remarkably similar to the one at issue here as long ago as 1912, in the very decision overridden by the Clayton Act. In *Henry v. A.B. Dick Co.*, the plaintiff licensed its patented mimeograph machine for use "only with the stencil paper, ink and other supplies" made by the plaintiff. 224 U.S. 1, 11 (1912). When the defendant sought to sell ink for use with the mimeograph machine, the plaintiff sued for contributory infringement, and a 4-3 majority of the Court voted to allow the suit over the objection that this tying arrangement violated antitrust policies. *See id.* at 29-36.

As noted above, Congress responded to this decision by enacting the prohibition on patent tying arrangements in Section 3 of the Clayton Act. In considering the Act, Senators repeatedly referred to the *A.B. Dick* decision and another pending patent tying case.[5] Even more important,

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[5] *See, e.g.*, LEGISLATIVE HISTORY, *supra*, at 1993 (statement of Sen. Reed) ("one can hardly imagine a better illustration" than the *A.B. Dick* case "of the length to which these license agreements can be carried if the law remains unchanged"); *id.* at 1993-97 (statement of Sen. Reed) (reading into the record substantial portions of the *A.B. Dick* majority and dissenting opinions); *id.* at 2004 (statement of Sen. Reed) (noting that then-pending *United Shoe Machinery Corp. v. United States*, 258 U.S.

Congress amended the bill that became Section 3 to specifically prohibit patent tying arrangements.[6] Congress thus plainly intended Section 3 to overrule the *A.B. Dick* decision and to condemn arrangements in which sale of a patented product is conditioned on the sale of other separate goods. Victor H. Kramer, *The Supreme Court and Tying Arrangements: Antitrust as History*, 69 MINN. L. REV. 1013, 1023 (1985).

Following the passage of the Clayton Act, the Court faithfully applied this congressional policy to numerous cases concerning patent tying arrangements, including many requirements ties. In 1917, in *Motion Picture Patents Co. v. Universal Film Management Co.*, 243 U.S. 502 (1917), the Court considered whether a company could license a patented film projection machine on the condition that it be used solely with the company's films. Expressly overruling *A.B. Dick*, the Court refused to enforce this requirements tie in light of the "persuasive expression of public policy" in Section 3 of the Clayton Act. *Id.* at 516-18.

Over the next thirty years, the Court considered numerous other cases in which patents were used in requirements ties, holding them anticompetitive without further proof of market power. For example, in *International Business Machines Corp. v. United States*, 298 U.S. 131 (1936), IBM had invented and patented the only machines that could perform certain tabulations and computations. *Id.* at 133. IBM leased these machines on the condition that customers use them only

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451 (1922) (tying shoe manufacturing machines to supplies), is "probably one of the most exasperating illustrations of how these legal devices can be employed"); *id.* at 2129 (statement of Sen. Walsh) (noting the "significance" of the *A.B. Dick* case).

[6] *See, e.g.*, LEGISLATIVE HISTORY, *supra*, at 2129-30 (statement of Sen. Walsh) (introducing amendment to prohibit the practice of selling or leasing "patented articles coupled with the condition that the purchaser or lessee must buy a lot of other unpatented articles").

with IBM's tabulating cards. *Id.* at 134. The Court held that the tie violated the Clayton Act, which it expressly found prohibits tying arrangements. *Id.* at 137. The *IBM* decision drew support for its antitrust ruling from a patent misuse tying case, *Carbice Corp. v. American Patents Development Corp.*, 283 U.S. 27 (1931), which refused to consider a patent infringement claim because the patent in question had been used to impose a requirements tie. *Id.* at 30, 33-34. In *Carbice*, the Court reasoned that this tying arrangement was analogous to practices "condemned under the Sherman Anti-Trust Law." *Id.* at 34.

In half a dozen other cases, the Court similarly either invalidated a requirements tie under antitrust law or refused to enforce a patent used to impose such a tie—all without once requiring any additional affirmative evidence of market power.[7] Thus, by the time that this Court decided *International Salt,* it not only had the benefit of the congressional policy underlying the Clayton Act; it also had experience with nearly a dozen patent tying arrangements, each of which it had found to be anticompetitive.

In criticizing this Court's ruling in *International Salt*, Trident ignores the lengthy experience of both Congress and this Court with patent tying arrangements in general and with requirements ties in particular. Instead, it attacks both *Inter-*

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[7] *See Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944) (conditioning license for patented furnace combination upon purchase of switch); *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944) (same); *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942) (conditioning lease of patented machine upon purchase of salt); *B.B. Chem. Co. v. Ellis*, 314 U.S. 495 (1942) (conditioning use of a patented method of shoe manufacturing upon use of unpatented supplies); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938) (conditioning use of patented road building method upon purchase of tar); *United Shoe*, 258 U.S. 451 (conditioning use of patented shoe manufacturing machines upon purchase of supplies).

national Salt and *Loew's* for relying upon cases applying the patent misuse doctrine rather than antitrust law. *See* Pet. Br. at 17-19. *International Salt*, however, did not ground its antitrust conclusion in patent misuse decisions; rather, it cited those cases for the innocuous proposition that the defendant's patents over the salt machines "afford no immunity from the anti-trust laws." *See* 332 U.S. at 395-96.

Petitioners have it backwards: the patent misuse decisions of this era were based upon the congressional policies underlying Section 3 of the Clayton Act, not the other way around. This Court explicitly recognized as much in the *Motion Picture Patents* case. *See* 243 U.S. at 517; *see also Mercoid*, 320 U.S. at 667; *Carbice*, 283 U.S. at 33-34. Thus, when this Court' patent tying cases looked to cases involving patent misuse defenses, they did so based upon underlying antitrust principles.

This Court explained the patent tying presumption in *Loew's*, albeit in abbreviated form. It observed that "one of the objectives of the patent laws is to reward uniqueness," and "the existence of a valid patent on a tying product" therefore shows "a distinctiveness sufficient to conclude that any tying arrangement involving the patented product would have anticompetitive consequences." 371 U.S. at 46. Trident quotes this explanation, *see* Pet. Br. at 18, but makes no attempt to refute it. Nor can it. As the next section demonstrates, *Loew's* rationale for presuming market power in patented products used in tying arrangements reflects both the objectives of patent law and the practical realities of patent tying litigation.

II. THIS NARROW PATENT TYING PRESUMPTION SHOULD BE PRESERVED BECAUSE IT STRUCTURES PROOF IN TYING CASES IN A FAIR AND EFFICIENT MANNER

Tying arrangements are said to be *per se* illegal, but in practice they are really subject to a "structured rule of reason" analysis. Lawrence A. Sullivan & Warren S. Grimes, THE LAW OF ANTITRUST: AN INTEGRATED HANDBOOK § 7.1, at 383 (2000). Plaintiffs bringing tying claims must establish at least four elements, of which market power is only one:

(1) two separate products or services are involved,

(2) the sale or agreement to sell one product or service is conditioned on the purchase of another,

(3) the seller has sufficient economic power in the market for this tying product to enable it to restrain trade in the market for the tied product, and

(4) a not insubstantial amount of interstate commerce in the tied product is affected.

ANTITRUST LAW DEVELOPMENTS 5TH, *supra*, at 179 n.997; *see also id.* at 175, 179 (noting additional requirements imposed by some courts).

Defendants in tying cases are also permitted to assert affirmative defenses based on efficiency and other business justifications. *See id.* at 207-08 (noting various successful defenses). *See also United States v. Microsoft Corp.*, 253 F.3d 34, 84-97 (D.C. Cir. 2001) (applying rule of reason analysis in tying case where possible procompetitive effects of tying arrangement are poorly understood). In addition, as in all antitrust cases, standing is limited to individuals who suffer injury resulting from harm to competition. *See Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477 (1977).

Although the Court's earlier decisions may not have articulated the basis of the market power presumption in detail, the

presumption reflects a thorough understanding of patent tying litigation, and structures such litigation in a fair and efficient fashion. The presumption recognizes that the patents involved in tying litigation are likely to be unusually valuable and therefore to fall within the select group of patents that realize patent law's promise of market power. It reflects the practical realities of tying litigation and therefore avoids unnecessary market share analysis. It also ensures that the cost of market share analysis does not bar individuals and small businesses from pursuing meritorious tying claims and it imposes the burden of proof on the party best situated to address the effects of the patent. In sum, the patent tying presumption provides a sensible way to order the proof of market power in patent tying cases.

A. The Patent Tying Presumption Accurately Reflects Economic Reality Because Patents That Are Involved in Tying Litigation Are Likely to Confer Market Power

In *Loew's*, this Court explained why patents involved in tying arrangements are likely to confer market power. The "existence of a valid patent on a tying product," it observed, is sufficient to show "anticompetitive consequences"—and therefore market power, which is needed to cause such consequences (*see, e.g., Jefferson Parish*, 466 U.S. at 16-17; *Grappone, Inc. v. Subaru of New England, Inc.*, 858 F.2d 792, 795 (1st Cir. 1988))—because patent laws seek to "reward uniqueness." *Loew's*, 371 U.S. at 46. This explanation reflects the practical realities of patent tying litigation. Patents are intended to confer market power upon patent holders. Many patents have little or no value and are incapable of fulfilling this intention but other patents are highly valuable and thereby likely to convey market power. Because the patents involved in tying arrangements and in tying litigation are likely to be highly valuable, they are likely to confer market power.

1. Petitioners Improperly Focus on Patents in General, Not the Patents That Are Used to Impose Patent Tying Arrangements

Trident objects to the patent tying presumption on the ground that many patents have little or no value and that it is therefore irrational to presume that any given patent confers market power. Pet. Br. at 23-27. This objection misses the point. The patent tying presumption applies only in tying cases. Thus, the relevant pool is not all patents; it is only those patents used in tying arrangements and involved in tying litigation.

Nor is there any reason to believe that this Court assumed that most patents confer market power in *International Salt* and *Loew's*. By 1947, when *International Salt* was handed down, economists knew that technological innovations normally offer only "very modest compensation or nothing or less than nothing." Joseph A. Schumpeter, CAPITALISM, SOCIALISM, AND DEMOCRACY 74 (1942). Likewise, this Court was generally aware of these considerations at that time. In 1949, only two years after *International Salt*, the Court observed that a patent can be prima facie evidence of market control, even though "in fact there may be many competing substitutes for the patented article." *Standard Oil*, 337 U.S. at 307. Moreover, as Trident itself observes, *see* Pet. Br. at 23, in 1958, the Court observed that it was "common knowledge that a patent does not always confer a monopoly over a particular commodity," *Northern Pacific*, 356 U.S. at 10 n.8, and the economists of the time made clear that many patents are not even used. *See* Barkev S. Sanders *et al.*, *The Non-Use of Patented Inventions*, 2 PATENT, TRADEMARK & COPYRIGHT J. OF RES. & EDUC. 1, 7 (1958). Nonetheless, this Court affirmed the patent tying presumption when it decided *Loew's* four years later.

2. Patents That Are Used to Impose Tying Arrangements Are Likely to Be Highly Valuable and Therefore to Confer Market Power

Although it is true that "a large percentage of patents produce little or no economic value," Pet. Br. at 25, it is also indisputedly true that numerous patents are highly valuable and therefore grant market power. Patents used to impose tying arrangements are likely to be among those highly valuable patents.

Patent law holds out the promise of market power, by definition. It seeks to "stimulate the efforts of genius" by "holding out a reasonable reward to inventors, and giving them an exclusive right to their inventions for a limited period." *Pennock v. Dialogue*, 27 U.S. 1, 19 (1829) (Story, J.). Because inventors often incur "enormous costs in terms of time, research, and development" in creating their inventions, *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480 (1974), the rewards conferred by patent law must promise to be quite valuable to provide inventors with incentives to incur these costs.

As economists recognize, to provide these incentives, patents must sometimes confer market power:

> The funds supporting invention and the commercial development of invention are front-end "sunk" investments; once they have been spent, they are an irretrievable bygone. To warrant making such investments, an individual inventor or corporation must expect that once commercialization occurs, product prices can be held above postinvention production and marketing costs long enough so that the discounted present value of the profits (or more accurately, quasi rents) will exceed the value of the front-end investments. *In other words, the inventor must expect some degree of protection from competition, or some monopoly power.* The patent

> holder's right to exclude imitating users is intended to create or strengthen that expectation.

F.M. Scherer & David Ross, INDUSTRIAL MARKET STRUCTURE AND ECONOMIC PERFORMANCE 622 (3d ed. 1990) (emphasis added).

Patents confer such market power by granting exclusive rights over the manufacturing, sale, and use of patented inventions, *see*, 35 U.S.C. §§ 154(a)(1), 271(a), and their substantial equivalents, *see, e.g.*, *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 732 (2002). Patents also confer market power over valuable products by barring the entry of competitors. *See* Herbert Hovenkamp, FEDERAL ANTITRUST POLICY: THE LAW OF COMPETITION AND ITS PRACTICE § 3.9d, at 143 (3d ed. 2005); *see also* Gov't Br. at 6, 26 (noting that "[t]he existence of a patent is relevant to the question of market power" because a patent may deter entry of competitors).

A small minority of patents realize this promise of market power and become highly valuable. *See, e.g.*, RICHARD T. RAPP & LAUREN J. STIROH, STANDARD SETTING AND MARKET POWER at 1, http://www.ftc.gov/os/comments/intelproperty comments/nera.pdf.[8] Indeed, the most extensive study of

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[8] *Accord* F.M. Scherer, *The Size Distribution of Profits from Innovation*, 49/50 ANNALES D'ECONOMIE ET DE STATISTIQUE 496 (1998) ("It is now widely recognized that the size distribution of profits from technological innovation is skewed to the 'right.'"); Mark Shankerman, *How Valuable is Patent Protection? Estimates by Technology Field*, 29 RAND J. ECON. 77, 79, 93 (1998) ("The distribution of the private value of patent rights is sharply skewed in all technology fields, with most of the value concentrated in a relatively small number of patents in the tail of the distribution."); Jean Olson Lanjouw, *Patent Protection in the Shadow of Infringement: Simulation Estimations of Patent Value*, 65 REV. OF ECON. STUD. 671, 695 (1998) ("All of the [patent value] distributions are very skewed—at most 16% of total value. . . accrues to the bottom 50% of patents."); Ariel Pakes, *Patents as Options: Some Estimates of the Value of Holding European Patent Stocks*, 54 ECONOMETRICA 755, 779 (1986)

patent value to date found that 70% of patents considered valuable enough to pay a modest renewal fee were worth more than $500,000, 50% more than $1 million, 30% more $5 million, and 15% more than $20 million.[9] In other words, patents are a sort of lottery: while the majority of patents confer only modest rewards, "the big prizes from innovation are thrown to a small minority of winners." F.M. Scherer, *The Innovation Lottery*, *in* EXPANDING THE BOUNDARIES OF INTELLECTUAL PROPERTY 15 (Rochelle Dreyfuss *et al.*, eds., 2001).[10]

The patents used to impose tying requirements are likely to be among the highly valuable patents that confer market power. When a buyer purchases a good that is patented or contains a patented component or process, it does not want its license to use the patent to be conditioned upon purchasing another good; it wants an unconditional license. As a consequence, buyers are unlikely to accept a license conditioned upon purchasing other goods unless there is something highly valuable about the patent being licensed. If the patent is not highly valuable, buyers will not feel compelled to accept a condition on the license; instead, they will turn elsewhere and buy a substitute for the patented good that is free from any such conditions. *Grappone*, 858 F.2d at 795;

(noting that evidence available from case studies indicates an "extremely skewed distribution of the values of patented ideas").

[9] Dietmar Harhoff *et al.*, *Exploring the Tail of Patented Invention Value Distributions* (discussing Table 12-5), *in* ECONOMICS, LAW, AND INTELLECTUAL PROPERTY: SEEKING STRATEGIES FOR RESEARCH AND TEACHING IN A DEVELOPING FIELD 297 (Ove Granstrand ed., 2003).

[10] Trident and the Government cite Professor Scherer, who is a former director of the Federal Trade Commission's Bureau of Economics as well as a distinguished scholar, in supposed support of their position. *See* Pet. Br. at 38 n.13; Gov't Br. at 12 n.7, 28-29 n.21. In fact, they have misunderstood Professor Scherer's research and his views—as Professor Scherer himself makes clear in his *amicus* brief.

see also Times-Picayune, 345 U.S. at 605 (noting that usually only parties with some market power are able to impose unwanted conditions upon consumers). In other words, sellers are only likely to be able to impose patent tying arrangements when their patents are highly valuable.

3. Requirements Ties, the Subject of the Patent Tying Presumption in This Case and This Court's Prior Cases, Generally Cannot Be Imposed Absent Market Power

Although some tying arrangements are procompetitive due, for example, to economies of scale that lower the overall cost of the combined goods and are therefore acceptable to consumers even in a competitive market, that is not typically the case with patent tying arrangements. As here, most patent tying arrangements are in the form of requirements ties in which a customer purchasing one product is required to make all purchases of supplies needed to use the first product from that product's manufacturer. Requirements ties are "perhaps the most common type of tie-in." Carlton & Perloff, *supra*, at 333; *accord* Barry Nalebuff, *Bundling, Tying and Portfolio Effects*, DEPARTMENT OF TRADE AND INDUSTRY ECONOMICS PAPER NO. 1, at 72 (2003). Moreover, nearly all the patent tying arrangements that have come before this Court have taken this form. *See supra* pp. 14-15 (describing *International Salt*); *id.* at p. 16 (*A.B. Dick*); *id.* at pp. 17-18 & n.7 (the *IBM* punchcard case, *Carbice*, and other patent misuse cases).[11]

Requirements ties offer buyers neither convenience nor cost savings. Unlike arrangements where goods are sold together at the same time, requirements ties do not take advantage of economies of scale or distribution that lead to

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[11] Two other cases in which tying arrangements were struck down, *Northern Pacific*, 356 U.S. at 1, and *Eastman Kodak Co. v. Image Technical Serv.*, 504 U.S. 451 (1992), involved deferred purchase requirements similar to requirements ties.

lower prices. Instead, as the American Bar Association recognizes, they are typically used for "metering," *see* ABA Br. at 10, which makes the price charged vary with usage. *See, e.g.*, Nalebuff, *Bundling, Tying, and Portfolio Effects*, *supra*, at 16. A requirements tie can be used to meter when the seller charges a supracompetitive price for the tied product (ink here), thereby effectively increasing the cost of the tying product the more it is used. *See id.* at 17. Unless the cost of the product varies directly with usage, metering results in different consumers being charged different prices for the same good, which is a form of price discrimination. *See id.* at 72; *see also* Hovenkamp, *supra*, § 3.9b, at 137 (noting that metering is a "very common price discrimination mechanism").

Price discrimination is strong evidence of market power. High-volume consumers would prefer not to pay more than other consumers, and in a competitive market, they will turn away from sellers engaged in price discrimination and patronize buyers offering them lower flat rates. Thus, as Trident's own authorities recognize, persistent price discrimination is "very good evidence" of market and, indeed, monopoly power. Richard A. Posner, ANTITRUST LAW: AN ECONOMIC PERSPECTIVE 63 (1976); *accord* Hovenkamp, *supra*, § 3.9b, at 136 (noting that sustained price discrimination is "pretty good" evidence of market power).

Even if consumers were amenable to paying more for a product the more they used it, they would still be unlikely to accept requirements ties in the absence of an exercise of market power. Especially in this digital age, there is no need to use the consumption of supplies to measure the usage of a product: usage can be measured directly through counting devices and the like. *See, e.g.*, Louis Kaplow, *Extension of Monopoly Power Through Leverage*, 85 COLUM. L. REV. 515, 541-42 (1985). Even worse, metering can be used to obscure the price of a tying product and lure even sophisticated

consumers into paying more for the product over its life than they would in a competitive setting. *See, e.g.*, Richard Craswell, *Tying Requirements in Competitive Markets: The Consumer Protection Issues*, 62 B.U. L. Rev. 661, 671-74 (1982). Indeed, given the ability to measure consumption directly, the desire to shroud prices and deceive consumers is usually the most plausible reason for a company to impose a requirements tie. *See* Nalebuff, *Bundling, Tying, and Portfolio Effects*, *supra*, at 82; *see also* J.A. 396a (noting Trident's refusal to provide consumers with information about ink consumption).

No doubt aware that the ability to engage in price discrimination demonstrates market power, Trident does not defend the requirement that its customers and end users buy its ink as a metering device. Instead, Trident claims the requirement is "protecting system performance" and "preserving the goodwill Trident has developed." Pet. Br. at 30 n.8. As the Court has recognized, such claims rarely prevail because in most situations "specification of the type and quality of the product to be used in connection with the tying device is protection enough." *Standard Oil*, 337 U.S. at 305-06. *See also* ANTITRUST LAW DEVELOPMENTS 5TH, *supra*, at 208 n.1187 (listing cases); Nalebuff, *Bundling, Tying, and Portfolio Effects*, *supra*, at 21 (noting that based on "safety and quality may be the last refuge of a scoundrel"). In any event, the use of requirements ties to ensure quality deprives consumers of choice. *See Nat'l Collegiate Athletic Ass'n v. Bd. of Regents of the University of Oklahoma*, 468 U.S. 85, 107 (1984) ("Congress designed the Sherman Act as a consumer welfare prescription," and practices "reducing the importance of consumer preference" are inconsistent with this "fundamental goal.") Even where a seller has valid quality concerns, consumers want information about those concerns, not rigid restrictions on the source of their supplies. Consumers are likely to accept requirements ties only when forced by the seller's market power.

4. Patents Involved in Patent Tying Claims Are Likely to Be Highly Valuable

As in this case, patent tying claims are frequently raised in response to patent infringement claims. Patent infringement litigation tends to focus upon the most valuable patents. *See, e.g.*, Jean O. Lanjouw & Mark Shankerman, *Characteristics of Patent Litigation: A Window on Competition*, 32 RAND J. ECON. 129, 147 (2001) (finding a "quite high" likelihood of litigation for "high-value patents"). In fact, as the *amicus* brief of Professor F.M. Scherer details, the value of patents is directly correlated with litigation costs.

Professor Scherer and his colleagues studied a group of patents issued in Germany, which at the time required escalating renewal fees. Analyzing patents that were renewed and therefore presumably valuable, they found that the patents challenged in procedures prior to issuance were on average 11.2 times more valuable than other renewed patents, and that those challenged in more expensive proceedings after issuance were 42.6 times more valuable. *See* Harhoff *et al.*, *Citations, Family Size, Opposition and the Value of Patent Rights*, *supra*, at 1358-59. As the cost of German patent proceedings is a fraction of the cost of an antitrust proceeding in this nation, this research shows that patents involved in contested proceedings tend to be "among the few patents with truly significant value." Scherer Br. at 7; *see also* Sullivan & Grimes, *supra*, § 7.2.d.9, at 429 (2000) (noting that a patent may "suggest the presence of interbrand market power, particularly if the patent is sufficiently valuable to engender antitrust or patent infringement litigation").

Trident makes no attempt to show that patents of little or no value are likely to be the subject of patent tying claims. It merely asserts that "[n]othing about tying changes the degree of power that inheres in an intellectual property right." Pet. Br. at 24. Patents that are involved in tying litigation are, however, different from run-of-the-mill patents because they

are highly valuable. They are not patents for silly products such as motorized ice cream cones, *see* Houston IP Law Ass'n Br. at 10 n.16, or minor improvements on existing products such as soft drink cans, easy opening soft drink can, bottle openers, toothbrushes, and paper clips, Pet. Br. at 13; Gov't Br. at 21, the patents on which Trident and its *amici* focus. Such low-value patents are unlikely to be involved in either tying arrangements or tying litigation, and they therefore shed no light on the practical reality of patent tying litigation.

B. The Patent Tying Presumption Enables Plaintiffs to Vindicate the Public Interest in Competition in the Tied Product Market

The patent tying presumption helps to ensure that meritorious claims will be heard. In private enforcement cases, tying claims typically pit individuals or small businesses against a multinational corporation or other major business entity.[12] In this case respondent Independent Ink, a company with revenues of about $5 million a year, is pitted against a subsidiary of a company with revenues of $11 billion per year. *See Illinois Tool Works Company Profile*, http://biz.yahoo.com/ic/10/10778.html (last visited Sept. 27, 2005). In many such instances, small companies and individuals will be unable to afford the cost of the expert testimony needed to define markets and establish market power through market share analysis.

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[12] *See, e.g., Kodak*, 504 U.S. at 455 (independent service organizations suing Eastman Kodak Company); *Jefferson Parish*, 466 U.S. at 5 (individual anesthesiologist suing hospital); *Fortner II*, 429 U.S. at 613 (local real estate development company suing U.S. Steel Corporation). *See generally* Warren S. Grimes, *Antitrust and the Systematic Bias Against Small Business*, 52 CASE W. RES. L. REV. 231, 236-37 (2001); Steven C. Salop & Lawrence J. White, *Private Antitrust Litigation: An Introduction and Framework, in* PRIVATE ANTITRUST LITIGATION (Lawrence J. White ed., 1988).

By lifting from small business plaintiffs the burden of unnecessary market share analysis—while allowing larger companies to engage in such analysis if they so choose—the market power presumption ensures that valid claims of patent tying will not be dropped due to the cost of expert testimony. Defining market power and analyzing market shares—the ordinary method of proving market power—can be prohibitively expensive. *See, e.g.*, Philip Areeda, *The Changing Contours of the* Per Se *Rule*, 54 ANTITRUST L.J. 27, 28 (1985) ("proving markets and power is difficult, complex, expensive, and time-consuming"); Richard A. Given, ANTITRUST: AN ECONOMIC APPROACH § 3.01 at 3-12 (2005) (noting that even where market definition is fairly clear, proof of definition "may take years and cost hundreds of thousands if not millions of dollars").

In many cases the patent tying presumption will obviate any inquiry into market share altogether. Because the presumption accurately reflects the practical reality of patent tying litigation, defendants may have no credible basis for contesting market power (which might be why Trident decided not to conduct any market share analysis in this case). Thus, in many such cases, the possession of market power will not be contested, and the presumption will save parties and courts from having to entertain disputes over market share.

Even where market power is contested, the patent tying presumption might nonetheless limit litigation over market share analysis by focusing the parties on the applicability of the presumption. Patents confer market power when the exclusive rights they grant effectively prevent competitors from offering competing substitutes. If the defendant in a patent tying case can show the patent in question has expired or relates to a minor component of the good in question, it will be easy for courts to conclude that the patent does not preclude competing substitutes, and the presumption will be

rebutted. In this way as well, the patent tying presumption helps avoid unnecessary market share analysis.

C. The Patent Tying Presumption Does Not Impose an Unfair Burden on Patent Holders

The patent tying presumption is fair as well as efficient. It shifts the burden of producing evidence concerning market power onto the party best situated to determine whether the patent in question confers such power. The patent holder is in a far better position to understand how the patent used in the tying product operates than competitors such as Independent Ink, who sell only the tied product, as well as whether the patented product has any close substitutes. Thus, it is entirely fair to place the burden of rebutting the patent tying presumption on the patent holder.

Trident contends that the market power presumption imposes an onerous burden upon patent holders because "proving a negative is difficult." Pet. Br. at 32 n.10. That is not true. In tying cases, a patent holder can rebut a claim of market power by showing that the patented product has close, noninfringing substitutes. Thus, the presumption requires an affirmative, not a negative, showing in rebuttal.

It makes no difference that Trident failed to rebut the patent tying presumption in this case. Pet. App. 16a-17a. Trident argued that the presumption was rebutted by the mere existence of two companies, Xaar and Markem, that sell ink jet printheads. The court of appeals correctly rejected this argument. Markem and Xaar did not even begin operating until 1999, the year after this suit was filed. Even more important, the mere existence of an alleged substitute does not preclude the exercise of market power: the substitute must be close enough to constrain pricing behavior. *See* ANTITRUST LAW DEVELOPMENTS 5TH, *supra*, at 525; *see also Times-Picayune*, 345 U.S. at 612 n.31 ("For every product, substitutes exist."). That is obviously not the case here, as

Trident's continued dominance of the industrial carton coding market demonstrates. *See supra* p. 2 (noting that Trident charges as much as three times more for its ink than Independent Ink). In addition, Trident failed to submit any "credible economic evidence of the cross-elasticity of demand, the area of effective competition, or other evidence of lack of market power." Pet. App. 16a. Even more important, Xaar and Markem did not have any sales prior to the filing of this complaint and later accounted for no more than 15% of the sales of industrial ink jet printheads. *See* J.A. 20a, 333a, 373a. Thus, the evidence concerning the Xaar and Markem printheads proves the absence, not the presence, of effective substitutes for Trident's patented printheads.

D. The Patent Tying Presumption Enables the Efficient Administration of Antitrust Law by the Courts

The "administrative efficiency interests in antitrust regulation are unusually compelling," *F.T.C. v. Superior Court*, 493 U.S. 411, 430 (1990), and, accordingly, "[a]ntitrust law is filled with presumptions." 2 Phillip E. Areeda *et al.*, ANTITRUST LAW § 305f, at 55 (2d ed. 2002).[13] As this Court has observed, presumptions serve "to assist courts in managing circumstances in which direct proof, for one reason or another, is rendered difficult" in light of "considerations of

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[13] *See, e.g., Nat'l Collegiate Athletic Ass'n*, 468 U.S. at 109 ("when there is an agreement not to compete in terms of price or output, no elaborate industry analysis is required to demonstrate the anticompetitive character of such an agreement") (quotation omitted); *Cont'l T.V. Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 50 n.16 (1977) (noting that *per se* rules "minimize the burdens on litigants and the judicial system of the more complex rule-of-reason trials"); *United States v. Phila. Nat'l Bank*, 374 U.S. 321, 363 (1963) (presuming that a merger producing a firm with a large percentage of the relevant market must be enjoined absent "evidence clearly showing that the merger is not likely to have such anticompetitive effects").

fairness, public policy, and probability as well as judicial economy." *Basic Inc. v. Levinson*, 485 U.S. 224, 245 (1988).

While the patent tying presumption is not a full-blown *per se* rule, but rather one element of a structured rule of reason, *see supra* p. 20, it still fits comfortably within this paradigm. The presumption deals with market power, an issue that is often notoriously difficult and expensive to establish. *See, e.g., F.T.C. v. Superior Court*, 493 U.S. at 430 (noting the "enormous complexities" of defining markets and proving market power through market share analysis) (quotation omitted). The presumption provides a way to structure proof of market power that is fair to the parties because it allocates burdens to the parties best situated to bear them, and that furthers the goals of the antitrust laws by ensuring that the cost of litigating market power will not bar meritorious claims. It thus furthers judicial economy by streamlining the proof and hastening the joinder of issue on market power when market power is the dispositive question.

III. PETITIONER'S POLICY ARGUMENTS TO THIS COURT IN FAVOR OF ELIMINATING THE PATENT TYING PRESUMPTION ARE BETTER DIRECTED TO CONGRESS AND ARE BASELESS IN ANY EVENT

Trident urges this Court to overrule the patent tying presumption because it is an irrational rule that is based upon a rudimentary misunderstanding of the economics of patents. Such arguments seek to overturn a century of statutory policy and thus are better directed to Congress. Congress has had ample opportunity to eliminate the market power presumption, but has repeatedly declined to do so.

For example, Congress considered proposals to eliminate the patent tying presumption from antitrust law when it enacted the Patent Misuse Reform Act of 1988, but the final legislation omitted any such proposal. The Senate bill contained a provi-

sion eliminating the presumption, *see* S. 438 (proposing the "Intellectual Property Antitrust Protection Act of 1988" to provide that an intellectual property right "shall not be presumed to define a market or to establish market power"), but the House deleted that provision and the Senate later acquiesced to the House version. *See* Patent Misuse Reform Act, PL 100-703 (1988) (containing no such provision).

In the following decade, Congress had five more opportunities to overturn the market power presumption in antitrust cases. It never, however, enacted such legislation, despite its keen awareness of the court cases applying the market power presumption, as well as the lobby to eliminate it.[14] Congress is perfectly capable of amending antitrust laws in response to judicial decisions, as evidenced by its response to *A.B. Dick* in the Clayton Act, *see supra* pp. 12-13, 16-17. Its repeated refusal to eliminate the market power presumption in antitrust cases should not be second-guessed here.

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[14] *See* H.R. 401, 105th Congress (1997) (proposing the "Intellectual Property Antitrust Protection Act of 1997," which provided that "[i]n any action in which the conduct of an owner, licensor, licensee, or other holder of an intellectual property right is alleged to be in violation of the antitrust laws in connection with the marketing or distribution of a product or service protected by such a right, such right shall not be presumed to define a market, to establish market power (including economic power and product uniqueness or distinctiveness), or to establish monopoly power"); H.R. 2674, 104th Congress (1995) (proposing the "Intellectual Property Antitrust Protection Act of 1995," prohibiting same); S. 298, 101st Congress (1990) (proposing the "Intellectual Property Antitrust Protection Act of 1990," prohibiting same and providing that an intellectual property right may be found to define a market or establish market power "upon a showing by a preponderance of the evidence that a product, process, or service substantially equivalent to or substitutable for the product, process, or service protected by that right is not available"); S. 270, 101st Congress (1989) (proposing the "Intellectual Property Antitrust Protection Act of 1989," prohibiting same); H.R. 469, 101st Congress (1989) (proposing the "Intellectual Property Antitrust Protection Act of 1989," prohibiting same).

Even if this Court did consider Trident's purely policy-based attacks on the market-based presumption, they are substantively baseless and therefore cannot justify rejection of a rule that this Court has endorsed for more than half a century.

A. Tying Law Protects Innovation, Competition, and Consumer Welfare Through Affirmative Defenses and Elements Other Than Market Power

Trident asserts that the patent tying presumption will deter innovation, encourage meritless litigation, and penalize pro-competitive conduct. Pet. Br. at 27-34. If the presumption caused all these bad consequences, Trident should easily be able to offer numerous concrete examples from the past fifty years. It does not. Instead, Trident offers sheer speculation.

Trident asserts that the presumption of market power increases the costs of owning and enforcing intellectual property, and it therefore discourages firms from investing in the development of intellectual property in the first place. Pet. Br. at 33-34. That is empirically untrue. The number of patents has been increasing. *See, e.g.*, NAT'L RESEARCH COUNCIL OF THE NAT'L ACADEMIES, A PATENT SYSTEM FOR THE 21ST CENTURY 28 (2004). Trident does not explain how an inventor would anticipate that the innovation on which he is working would eventually be used in a tying arrangement and subject to tying litigation, much less why the prospect of the use of a presumption of market power in that case would affect his decision to pursue the invention. Patents are already subject to expensive infringement and invalidity litigation in which discovery alone can easily cost hundreds of thousands of dollars, and trials routinely cost millions of dollars to conduct. *See id.* at 68-70. There is no reason to believe that an inventor undeterred by potential infringement

litigation would be so concerned about the possibility of tying litigation that he would abandon his inventive efforts.

Trident also asserts that the patent tying presumption increases the chances that "deficient claims" will survive to trial and therefore "increases the odds that unjustified settlement payments will be extracted." Pet. Br. at 33. Here again, Trident has not raised a realistic concern. As noted above, market power is not the only element of the "*per se*" rule against tying. *See supra* p. 20. The rule also requires proof of additional elements such as whether separate products are involved, consumers have been coerced into accepting the tying arrangement, and a substantial amount of commerce has been affected. *See* ANTITRUST LAW DEVELOPMENTS 5TH, *supra*, at 179; *see also id.* at 175, 179 (noting that some courts require an economic interest in the tying product and other courts require an anticompetitive effect in the tied product market). In addition, tying defendants can invoke the antitrust injury doctrine, *see id.* at 839-49, or affirmative defenses based upon efficiency and other business justifications. *See id.* at 207-08. There is therefore no reason to believe that liability for tying claims will be imposed simply because market power is presumed. The presumption of market power is merely one element of a tying plaintiff's claim and does not guarantee the plaintiff will prevail.

Trident's claim that the patent tying presumption creates the "danger that procompetitive tying arrangements will be penalized" (Pet. Br. at 31) also ignores tying law. It is true that the market power requirement can screen out harmless ties that may be procompetitive. *See, e.g., Grappone*, 858 F.2d at 797-97. Market power is not, however, the only screen imposed by the many elements and defenses in tying law. For example, most of the procompetitive benefits of tying result from bundling products together to take advan-

tage of economies of scale or economies of distribution.[15] These practices are protected primarily by the requirement that the products allegedly tied together be economically separate, which "is critical for separating procompetitive bundling practices from [illegal] ties." Sullivan & Grimes, *supra*, § 7.2d.1, at 414. In addition, because bundling lowers prices, such practices are also protected by the coercion requirement, *see Jefferson Parish*, 466 U.S. at 12-13, because consumers presumably will buy lower priced goods voluntarily.

The patent tying presumption also does not prevent defendants from invoking affirmative defenses and similar protections. For example, Trident observes that tying can be used to facilitate entry into markets. This Court has recognized that the need to enter a developing market may justify a tying arrangement, at least for a temporary period of time. *See Jerrold Elecs. Corp. v. United States*, 365 U.S. 567 (1961), *aff'g per curiam*, 187 F. Supp. 545 (E.D. Pa. 1960). Trident also observes that tying arrangements can be used to achieve "efficient technological interdependence." Pet. Br. at 28 (quotation omitted). Such business justifications can be invoked as affirmative defenses and sometimes may even justify an exclusion from the *per se* rule. *See, e.g., Microsoft*, 253 F.3d at 89-95.

Finally, Trident claims that, by measuring the use made of the tying product, tying arrangements bring a host of benefits such as protecting quality, preserving goodwill, helping to calculate license fees, and spreading the risks of new

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[15] *See, e.g.*, Pet. Br. at 27 (noting that tying arrangements may "lower[] costs or increas[e] value") (quotation omitted); *id.* at 28 (make provision of goods "more efficient," "achieve economies of scale," and achieve "cost savings") (quotations omitted); *id.* at 29 n.7 ("distribution cost savings") (quotation omitted); *see also id.* (noting "compatibility cost savings") (quotation omitted).

technologies.[16] As just demonstrated, there is little danger of "false positives" with such claims. Although defendants frequently argue that tying arrangements are needed to ensure quality and protect reputation, in practice such claims usually turn out to be pretextual because there are other ways such as product specifications to protect these interests without forcing buyers to accept an unwanted product. *See supra* p. 28.[17] Similarly, tying arrangements are not needed to measure usage or to spread the risk of new technology in many cases because companies can directly meter usage using digital technologies. *See supra* pp. 27-28. Here again, Trident's concerns about the effects of the presumption do not withstand analysis.

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[16] *See, e.g.*, Pet. Br. at 27 ("protecting quality") (quotation omitted); *id.* at 28 ("promoting product quality and protecting supplier's goodwill") (quotation omitted); *id.* at 29 n.7 (protecting "quality of the variable input") (quotation omitted).

[17] Trident's assertions about the need to protect the performance of its printers are no exception. Trident contends that there is "compelling" evidence in the record that use of third party inks can jeopardize the performance of its printheads. Pet. Br. at 30 n.8. In fact, the only evidence that Trident cites is its own licensing policy, J.A. 378a-79a, and marketing materials. J.A. 457a, 459a-70a. Even more important, the record shows that the ink produced by Independent Ink is "basically identical" to Trident's ink, J.A. 519a, that Trident had no evidence that Independent Ink's product has damaged any Trident printheads, J.A. 482a, and that Trident did not object to the use of third party inks until those inks encroached upon Trident's sales. J.A. 478a. Moreover, these objections were raised as part of an overall marketing plan. *Id.* It is also worth noting that Trident fails to reconcile its supposed concern for the quality of inks used in its printheads with its representation to this Court that it permitted end users to buy any inks they pleased. *See* Pet. Br. at 4; *see also supra* p. 4 n.1 (noting that the evidence in the record contradicts this assertion). If end users were permitted to buy any ink they please, Trident's purchase restrictions would not be able to control the quality of the ink being used by end users.

B. Neither the Patent Misuse Reform Act Nor the DOJ Enforcement Guidelines Undermines the Patent Tying Presumption

The Patent Misuse Reform Act. Trident asserts that it is "possible" that "some members of Congress" believed that the Patent Misuse Reform Act of 1988 eliminated the market power presumption in antitrust tying cases. Pet. Br. at 41 n.15; *see also* Gov't Br. at 14-15, 22. Speculation about the unexpressed beliefs of members of Congress has no bearing on statutory interpretation. Congress acts collectively through enacting laws that are presented to the President: the unexpressed beliefs of individual lawmakers are therefore irrelevant. *See, e.g., Regan v. Wald*, 468 U.S. 222, 237 (1984); *see also Bank One Chicago, N.A. v. Midwest Bank & Trust Co.*, 516 U.S. 264, 279 (1996) (Scalia, J., concurring) ("The law *is* what the law *says*, and we should content ourselves with reading it rather than psychoanalyzing those who enacted it."). Here, Congress has not acted to overturn the presumption.

In any event, as the Federal Circuit recognized, Pet. App. 10a n.7, to the extent that any inference can be drawn from the legislative history of the Patent Misuse Reform Act, it favors this Court's maintenance of the presumption of market power. As previously observed, *see supra* pp. 34-35, when the Senate passed its version of the Act, the bill addressed the presumption of market power in tying cases. *See* Pet. App. 10a n.7. The House, however, deleted these provisions, and the Senate acquiesced to the House version, making it "clear that Congress was not attempting to change existing law" with respect to the market power presumption in patent tying cases. *Id.*

Nor is it surprising that Congress would change the patent misuse doctrine without similarly changing antitrust law. Congress intended the Patent Misuse Reform Act to divorce the patent misuse defense from antitrust law and return the

defense to its equitable roots. *See, e.g.*, 134 Cong. Rec. S17146-02 (Oct. 21, 1988) (statement of Sen. Leahy) (noting that the Act "plainly restored" the "equitable nature of the misuse doctrine"); 134 Cong. Rec. H10646-02 (Oct. 20, 1988) (statement of Rep. Kastenmeier) (same). In other words, as the Federal Circuit recently observed, the Act "makes clear that the defense of patent misuse differs from traditional antitrust law principles." *U.S. Philips Corp. v. I.T.C.*, No. 04-1361, 2005 WL 2293081, at *5 (Fed. Cir. Sept. 21, 2005); *accord* Pet. Br. at 17-18. In addition, the equitable defense of patent misuse, unlike tying law, does not contain a requirement such as forcing that protects pro-competitive conduct. *See supra* p. 20. It made perfect sense for Congress therefore to require proof of market power and create a "safe harbor" against charges of patent misuse. *See U.S. Philips*, 2005 WL 2293081, at *5.

The DOJ Enforcement Guidelines. Trident observes that under guidelines issued in 1995 federal antitrust enforcement agencies do not presume that patents or any other intellectual property rights confer market power. *See* Pet. Br. at 35-37. Obviously, those guidelines cannot overrule the decisions of this Court or require it to adopt positions in conflict with the congressional policies underlying the prohibition against tying in Section 3 of the Clayton Act. In any event, the guidelines shed little light on the patent tying presumption. They address all antitrust claims dealing with intellectual property, not just patent tying claims. Moreover, they deal with the Government's "antitrust *enforcement* policy" and decisions to prosecute and investigate, not the order of proof during civil litigation. Gov't Br. at 1; *see* UNITED STATES DEP'T OF JUSTICE AND FEDERAL TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 1 (1995) (emphasis added). Thus, Trident's reliance upon the guidelines is misplaced.

C. Current Scholarly Opinion Supports the View That Requirements Ties Pose Serious Anti-competitive Dangers

Trident asserts that the patent tying presumption of market power has been rejected by the "unanimous modern view of economists and legal scholars." Pet. Br. at 11. In fact, the legal scholars cited by Trident object to the presumption that patents in general confer market power; they do not consider whether patents actually used in tying arrangements are likely to confer market power. Moreover, Trident is simply wrong in arguing that such scholars unanimously condemn the patent tying presumption. *See* Nalebuff *et al.* Br. at 1-2, 4 (Professors Ian Ayres and Lawrence Sullivan endorsing presumption).

Trident is also wrong in arguing that economists oppose the presumption. Although leading economists reject the presumption that *all* patents confer market power, they support the presumption that those patents used to impose tying arrangements confer market power. *See* Scherer Br. at 9-10, 18 (noting that patents involved in litigation are likely to be unusually valuable patents); Nalebuff *et al.* Br. at 22-27 (noting that patents in requirements ties are likely to confer market power).

In addition to incorrectly claiming unanimous academic support for its position, Trident asserts that most tying arrangements are economically beneficial and that the patent tying presumption therefore creates an unacceptable risk of "false positives." Pet. Br. at 27 (quotation omitted). The Clayton Act, however, forecloses any assumption that tying is an essentially benign practice. Section 3 of the Act contains a specific prohibition—a rarity in antitrust law—against tying and similar exclusionary practices, which expresses Congress' "great concern about the anticompetitive character of tying arrangements." *Jefferson Parish*, 466 U.S. at 10. This congressional policy "must be respected." *Id.*

Contrary to the impression that Trident seeks to create, the dangers of tying perceived by Congress are well-recognized by economists. To be sure, according to a view prevalent in the last several decades, tying cannot be used to leverage power from one market into another and therefore should be treated as presumptively procompetitive. *See, e.g.*, Robert Bork, THE ANTITRUST PARADOX (2d ed. 1993); Ward S. Bowman, Jr., PATENT AND ANTITRUST LAW (1973). More recent economic scholarship, however, recognizes that this once prevalent view adopts a static perspective that unrealistically assumes perfect competition in the tied product market and fails to take into account possible effects of innovation. *See, e.g.*, Kaplow, *supra*, at 526-39; Nalebuff, *Bundling, Tying, and Portfolio Effects*, *supra*, at 20-27. Under more realistic assumptions taking into account technological innovation and the possibility of change, tying can be used to alter market structure to prevent the entry of competitors in the tied product market, or to force competitors out of the market.[18]

In addition, the tying arrangement at issue here—a requirements tie—poses a different and especially pernicious sort of danger: it reduces consumer welfare. Requirements ties are a form of metering, which is frequently used to facilitate price discrimination. *See supra* pp. 26-27. As leading economists observe, price discrimination by means of metering is imper-

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[18] *See* Dennis W. Carlton & Michael Waldman, *The Strategic Use of Tying to Preserve and Create Market Power in Evolving Industries*, 33 RAND J. ECON. 194 (2002) (finding that tying can help to preserve and extend monopolies by denying competitors needed economies of scale); Jay Pil Choi & Chris Stefanadis, *Tying, Investment, and the Dynamic Leverage Theory*, 32 RAND J. ECON. 52 (2001) (finding that tying deters entry by reducing the incentive of entrants to engage in research and development); Michael D. Whinston, *Tying, Foreclosure, and Exclusion*, 80 AM. ECON. REV. 837 (1990) (recognizing that tying arrangements can be used to force the exit of competitors in the tied product market). *See generally* Nalebuff, *Bundling, Tying, and Portfolio Effects*, *supra*, at 39-62.

fect and may create allocation inefficiencies, *see* Nalebuff *et al.* Br. at 20-21; it distorts the behavior of consumers and sellers alike in wasteful ways, *id.* at 21-22; and it transfers the surplus normally enjoyed by consumers to sellers, thereby reducing consumer welfare. *Id.* at 19; Carlton & Perloff, *supra*, at 306-07.

Requirements ties also can be used to deceive consumers. As this Court has recognized, even sophisticated businesses often have difficulty calculating the aftermarket costs of a product. *See Kodak*, 504 U.S. at 473-76. Requirements that aftermarket supplies be purchased from a manufacturer can therefore be used to shroud supracompetitive prices and deceive consumers into paying more than they would in a competitive market. *See* Sullivan & Grimes, *supra*, § 7.2c3i, at 406; Nalebuff *et al.* Br., at 25-26. Indeed, because more direct means of metering are often available—here, for example, Trident could easily have directly metered usage by charging its customers and end users a fee per carton regardless of the ink used—the desire to shroud prices, and thereby enhance market power, frequently is the most plausible explanation for a requirements tie. *See id.* at 26.

Finally, the threat of false positives is empirically low. The patent tying presumption has been recognized for more than fifty years, yet neither Trident nor its many *amici* point to any concrete examples of false positives, much less the plethora that Trident's argument suggests. *See supra* pp. 37-38. Moreover, sellers are free to pursue the supposedly procompetitive benefits of requirements ties through less coercive means. *See supra* pp. 27-28; *id.* at p. 28 (noting that risk sharing and price discrimination can be accomplished through direct metering) (noting that quality can be ensured through product specifications). Nor does the patent tying presumption extend antitrust law into a new and complex area where courts cannot reliably assess the reasonableness of the conduct. *Cf. Verizon Commc'ns, Inc. v. Law Offices of Curtis V. Trinko,*

LLP, 540 U.S. 398 (2004) (rejecting antitrust claim against telecommunication industry defendant subject to extensive government regulation). To the contrary, it deals with a practice, tying, that the courts have been considering since the early days of the Sherman Act.

IV. THE JUDGMENT BELOW SHOULD BE AFFIRMED BECAUSE, EVEN WITHOUT A PRESUMPTION, MARKET POWER WAS DEMONSTRATED ON THE RECORD BELOW

Even if the Court should decide to limit or overturn the patent tying presumption, the decision below reversing summary judgment for Trident should be affirmed on the ground that the direct evidence in the record is sufficient to show market power. As Trident has long recognized, it "dominates the inkjet printhead market." J.A. 260a. It has licensed its printhead technology to OEMs making over 95% of ink jet printers for carton coding applications. In addition, under its own market definition, from at least 1994 to 1998, Trident printheads accounted for the printheads in *all* of the printers sold for this purpose and Trident continued to account for more than 80% of the sales after that. J.A. 18a, 20a, 333a, 373a.

Although market power is most frequently proven indirectly through market share analysis, such analysis is not needed to prove market power. Market power can also be shown through direct evidence of its exercise. *Kodak*, 504 U.S. at 469 (finding market power proven through evidence of "increased prices and excluded competition"); *F.T.C. v. Ind. Fed'n of Dentists*, 476 U.S. 447, 460-61 (1986) (broad, sustained refusal to deal); *Toys 'R' Us, Inc. v. F.T.C.*, 221 F.3d 928, 937 (7th Cir. 2000) (reduction in output); *RE/MAX Int'l, Inc. v. Realty One, Inc.*, 173 F.3d 995, 1018-19 (6th Cir. 1999) (exclusion of competition). In the tying context, a party must have sufficient power over the tying product "to

raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market." *Fortner II*, 428 U.S. at 620; *see also Jefferson Parish*, 466 U.S. at 13 (requiring power to "force a purchaser to do something that he would not do in a competitive market"). Thus, market power in a tying case can be proved by direct evidence that a party has raised prices or imposed, over a sustained period, unwanted and burdensome terms upon consumers.

In this case, there was direct evidence of Trident's market power. Trident charged nearly three times more than Independent Ink and other competitors for replacement ink, *see supra* p. 5, something it plainly could not have done absent power in the market for its patented printheads. In addition, Trident was able to force consumers to accept unwanted aftermarket purchase requirements. Trident's own survey found widespread dissatisfaction with its licensing policy. J.A. 388a-410a. Trident's customers objected that the policy was "too restrictive," J.A. 399a, and that Trident's prices for replacement ink were excessive.[19] *See supra* pp. 4-5. Trident's customers also wished for competition and the ability to use other inks. *See* J.A. 393a ("I want to use other inks"); J.A. 394a ("Customers hoping for competition."). Nonetheless, Trident was able to force its customers to purchase ink from it for years—*without* losing market share (*see* J.A. 26a (noting continued expansion of sales))—because its customers thought that there were "no alternatives" and they were "at [the] mercy" of Trident. J.A. 396a, 409a.

Trident's sustained ability to force of consumers to accept unwanted conditions clearly evidences market power. As the

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[19] *See, e.g.*, J.A. 391a ("pricing . . . still considered high for heads . . . excessive for inks"); J.A. 394a (pricing on "heads too excessive, also inks"); J.A. 397a ("highly priced hardware and ink"); J.A. 400a ("prices on heads and inks are too excessive").

First Circuit has observed, "[i]f the seller does not have market power with respect to product A, it cannot force buyers to take a more expensive or less desirable Product B, for if the Seller tries to do so, buyers will simply turn elsewhere for Product A." *Grappone*, 858 F.2d at 795.

Here, Trident required consumers to accept a condition that most dislike and that forces them to pay prices that they correctly perceive as excessive. Nevertheless, it has been able to continue these practices for years. This evidence that Trident has forced consumers to accept an unwanted condition and pay excessive prices is more than sufficient to demonstrate market power. *See Jefferson Parish*, 466 U.S. at 12 (noting that "the essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms").

The direct evidence of market power in this case is buttressed by more general considerations as well. First, the tying arrangement was based upon patents, which, as shown above, suggests that the patents are highly valuable and therefore confer market power. *See supra* pp. 23-26, 29-30. Second, the tying arrangement was a requirements tie, which generally does not offer any cost savings or other advantages to consumers, and Trident's claim that it imposed the tie to ensure quality is undermined by evidence that the parties' respective inks are functionally indistinguishable. *See supra* pp. 26-28. Third, Trident engaged in sustained price discrimination, which by itself is widely recognized as evidence of market power. *See supra* p. 28

Combined with the direct evidence of market power provided by Trident's customer survey, these considerations are more than adequate to show that Trident had sufficient market power to force buyers into purchasing its ink. As a consequence, no matter how the question presented concern-

ing the patent tying presumption is resolved, the judgment below reinstating Independent Ink's patent tying claims was correct and should be affirmed.

CONCLUSION

For the reasons stated above, the decision below should be affirmed.

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In the Supreme Court of the United States

ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.,
Petitioners,

v.

INDEPENDENT INK, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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REPLY BRIEF FOR PETITIONERS

From the alarmist tone of the arguments advanced by respondent and its amici, one would think that the question in this case was whether the Court should immunize sellers of patented goods against all tying claims. In fact, the issue here is considerably narrower — whether tying claims involving patented goods should be assessed under the market power standard that applies to every other type of tying claim and that applies in every other category of antitrust claim involving a patented good.

The United States, the American Bar Association, the American Intellectual Property Law Association, and numerous other distinguished amici have concluded that a presumption of market power based solely on the existence of a patent on the tying product makes neither legal nor economic sense. The overwhelming majority of antitrust scholars agree.

Respondent and its amici concede that many patents confer no market power at all (Br. 23) and that the market power requirement plays the crucial role of protecting procompetitive or harmless ties against treble-damages liability (*id.* at 37). They nevertheless claim that market power should be presumed in patent tying cases based on Section 3 of the Clayton Act (15 U.S.C. § 14), *stare decisis*, and their assertions about the market power allegedly conveyed by litigated patents. These arguments are inconsistent with this Court's precedents, economic reality, and common sense. The market power presumption should be eliminated.

A. Section 3 Of The Clayton Act Does Not Limit This Court's Authority To Overturn The Market Power Presumption.

This Court has observed that there is an important interest, "well represented in th[e] Court's [antitrust] decisions, in recognizing and adapting to changed circumstances and the lessons of accumulated experience." *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997) (citations omitted). Accordingly, in the antitrust context the Court has applied a *stare decisis* standard different from that applicable to precedents construing other statutes, and has several times reconsidered and overruled its decisions interpreting the antitrust laws. See Pet. Br. 14-15; U.S. Br. 18.

Respondent argues against applying that standard here, contending that Section 3 of the Clayton Act limits the Court's authority to overrule its prior decisions regarding the market power presumption. Br. 12-13, 16-19. That assertion is simply wrong.

To begin with, Section 3 does not single out patent-related tying claims for special treatment; it applies the same general standard whether the tying product is patented or not: "It shall be unlawful for any person engaged in commerce * * * to lease or make a sale * * * of goods * * *, whether *patented or unpatented*, * * * on the condition * * * that the lessee or purchaser thereof shall not use or deal in the goods, * * * where the effect of * * * such condition * * * may be to substantially lessen competition * * *" (emphasis added).

Section 3 was enacted to ensure that patented goods were not *exempt* from general antitrust principles as a consequence of *Henry v. A.B. Dick Co.*, 224 U.S. 1

(1912). See *International Bus. Mach. Corp. v. United States*, 298 U.S. 131, 137-38 (1936).[1] There is no basis whatever for respondent's assertion that Section 3 imposes a different, harsher rule for patent tying claims. And the statute certainly did not codify the market power presumption, which was not recognized by this Court until after Section 3's enactment.

If respondent were correct, moreover, the law governing tying and exclusive dealing (which is also covered by Section 3) would be frozen in time as of 1914 and this Court would have no authority to evolve appropriate legal standards as it does with respect to other aspects of antitrust law. While the existence of Section 3 might preclude the Court from eliminating all antitrust liability for tying and exclusive dealing, it surely does not preclude the Court from construing the statutory requirement of "substantially lessen[ing] competition" based on (in *State Oil*'s words) "changed circumstances and the lessons of accumulated experience."[2]

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[1] In *A.B. Dick*, the Court held that the defendant's sales of ink for use with the plaintiff's patented mimeograph machines — notwithstanding the patent license's requirement that licensees use the patent holder's ink — constituted contributory infringement. 224 U.S. at 35. Although no party raised an antitrust issue in the case, the Court's opinion contained language intimating that patent ties might be exempt from antitrust liability. See *id.* ("Congress alone has the power to determine what restraint shall be imposed [on patentees]. As the law now stands it contains none * * *").

[2] Some commentators go further. See, *e.g.*, R. Posner, *Antitrust Law* 207 (2d ed. 2001) (by "requir[ing] proof of anticompetitive effect [to establish a Section 3 violation, Congress] implicitly authorize[s] the courts to alter the scope

Respondent also discusses standards applied by this Court in determining whether to overrule prior decisions interpreting other statutes and the Constitution. Br. 11-12. But none of those decisions is applicable here; this is "an ordinary antitrust case" (Br. 13) governed by the standard set forth in *State Oil*.[3]

B. The Presumption Does Not Rest On A Determination By This Court That Patents Typically Convey The Degree Of Market Power Necessary To Establish An Unlawful Tie.

Although this Court expressly recognized the market power presumption in *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), the Court did not rely on empirical evidence regarding the market power conveyed by a patent or otherwise determine that a patent conveys the degree of market power required to establish an unlawful tie in other contexts. Pet. Br. 16-20. Respondent's claims that the presumption rests on conventional antitrust analysis cannot be reconciled with this Court's decisions.

Respondent asserts that we seek "to overturn fifty years of settled law" (Br. 13), but it does not dispute the fact that this Court has not applied the presumption in

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of the prohibition in accordance with changing perceptions of the competitive effects of particular practices, even to the point where no practice would fall within it").

[3] Respondent also half-heartedly argues that Congress's failure to overturn the presumption somehow eliminates this Court's authority to do so. Br. 34-35 & 40-41. The Court has declined to rely on congressional inaction as a basis for preserving other antitrust precedents; it should do so here as well. Pet. Br. 39-44; U.S. Br. 15 n.11.

the 42 years since first expressly recognizing it in *Loew's*. See Pet. Br. 16. Although the Court did refer to the presumption during that time, those statements — as the Solicitor General points out — are "most reasonably understood as 'merely describing pre-*Fortner II* cases without examining them.'" U.S. Br. 24 & n.17 (citation omitted). This case thus presents the Court with its first opportunity in 42 years actually to decide whether or not to apply the presumption.

Respondent also argues that the presumption rests on "decades of precise experience" with patent ties. Br. 14. Prior to *International Salt Co. v. United States*, 332 U.S. 392 (1947), the Court did decide a number of cases in which it refused to allow patent holders to maintain infringement claims based on patents that were subject to a tie. See, *e.g.*, *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944), *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942). And — as in *International Salt* — the Court condemned patent ties without requiring a separate showing of market power. See, *e.g.*, *Mercoid*, 320 U.S. at 664-66; *Morton Salt*, 314 U.S. at 491-92. But in none of those cases did the Court suggest that an empirical assessment of the defendant's market power was even a factor in the analysis, let alone that it had reason to presume a specific quantum of market power from a patent. Rather, the perceived attempt to extend the scope of the patent was reason enough to condemn the tie. See, *e.g.*, *Mercoid*, 320 U.S. at 667.

Respondent argues that these decisions actually rest on antitrust policy. Br. 18-19. But this Court in *Loew's* concluded that the market power presumption "grew out of a long line of" patent misuse cases, not antitrust cases. 371 U.S. at 46; see Pet. Br. 16-17. Nothing in

respondent's brief provides any basis for disregarding this Court's explanation of its own decision.

Finally, respondent does not take issue with our explanation (Br. 20-22) of the evolution of the market power standard in tying cases brought under the antitrust laws. See also U.S. Br. 18 (the Court's early tying decisions "analyzed the legality of such arrangements without inquiry into whether the defendant used the tie to exploit any market power that it may have had in the market for the tying product" but "particularly since its decision in *Fortner II*, the Court has emphasized the need to inquire into the defendant's market power"). Even if the Court's early decisions regarding patent ties might somehow reflect a determination about a patent's market impact, they provide no support whatever for the conclusion that a patent provides presumptive evidence of the "significant" market power that the Court now requires to establish an illegal tie. *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 26 (1984).

C. The Government's Enforcement Policy And Authoritative Scholarly Commentary Weigh Strongly Against The Presumption.

Respondent dismisses the government's antitrust guidelines and the Solicitor General's position in this case as irrelevant to the issue before the Court. Br. 41. But the Court has expressly relied on the government's enforcement policy in deciding to overrule prior antitrust decisions. See, *e.g.*, *State Oil*, 522 U.S. at 19; *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752, 777 (1984). The government's position here is therefore highly significant.

Moreover, even if respondent's assertion (Br. 41) that the guidelines "address all antitrust claims dealing with intellectual property" were correct,[4] it would be irrelevant: The guidelines specifically address tying and explicitly reject the market power presumption. Pet. Br. 35; U.S. Br. 13, 14.

The Court also has looked to the "'great weight' of scholarly criticism" in determining whether to overrule an antitrust precedent. *State Oil*, 522 U.S. at 21 (citation omitted). Respondent has identified (Br. 42-43) a few scholars who support some form of presumption. Yet they pale in comparison to the great number that have concluded that the presumption should be abandoned. Pet. Br. 37-39.

D. The Presumption Is Economically Irrational, Unfair, And Inefficient.

Respondent's principal argument is that the market power presumption makes economic sense, is fair to both parties, and promotes efficient administration of the antitrust laws. Br. 20-34. Respondent is wrong on all three counts.

1. The Presumption Does Not Reflect Economic Reality.

a. Respondent acknowledges that "[m]any patents have little or no value" but asserts that the presumption is nonetheless justified because "patents involved in tying litigation are likely to be unusually valuable" and

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[4] As their title indicates, the guidelines address only licensing issues, and therefore say nothing about the treatment of intellectual property in areas such as mergers and unilateral conduct.

therefore likely to convey market power. Br. 21. Respondent, however, does not present a single economic study of patents involved in ties or tying litigation or any studies of market power whatsoever. The authorities that respondent does cite do not support its contention.

First, nothing cited by respondent validates its assertion that "valuable" patents necessarily convey market power. A patent, like any property right, may have value yet nevertheless confer little or no market power on its owner because of the existence of patented or nonpatented substitutes. See Pet. Br. 13-14, 26; U.S. Br. 15 ("even when a patented product is commercially viable, it is still often subject to competition from noninfringing substitutes" (footnote omitted)). None of the studies cited by respondent or its supporting amici discuss product substitutes or other attributes of the relevant product market, or otherwise explain why a "valuable" patent likely conveys substantial market power. Indeed, the 30% market share in *Jefferson Parish*, 466 U.S. at 27, was highly valuable, but that market share alone was not enough to establish the existence of significant market power.[5]

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[5] For instance, the value estimations in the German studies performed by Professor Scherer were based on responses to "a single substantive *counter-factual* question" posed to patent holders: "If in 1980 you had known how its contribution to the future profitability of your enterprise would unfold, what is the minimum price for which you would have sold the patent, assuming that you had a good-faith offer to purchase?" D. Harhoff, F. Scherer & K. Vopel, *Exploring the Tail of Patented Invention Value Distributions*, in Economics, Law, & Intellectual Property 283-84 (2003) (emphasis added). These responses, divorced from other information

Second, respondent's syllogism rests on the assumption that a tie can succeed in the marketplace only if the seller has market power in the tying product. Thus, respondent contends that "[i]f the patent is not highly valuable, buyers will not feel compelled to accept a condition on the license; instead they will turn elsewhere and buy a substitute for the patented good that is free from any such conditions." Br. 25.

This reasoning completely ignores the fact that ties often succeed because they satisfy customer preferences or are otherwise procompetitive. As this Court has explained, "[b]uyers often find package sales attractive; a seller's decision to offer such packages can merely be an attempt to compete effectively — conduct that is entirely consistent with the Sherman Act." *Jefferson Parish*, 466 U.S. at 11-12. Indeed, respondent's contention directly contradicts established wisdom that, "[a]lthough tying can sometimes impair rivalry and thereby gain or reinforce market power, * * * diminished competition is not the object or effect of most litigated tie-ins, especially not of those foreclosing only a small share of a properly defined tied product market." 9 P. Areeda & H. Hovenkamp, *Antitrust Law*, ¶ 1703a, at 30-31 (2d ed. 2004).

If respondent's position were correct, moreover, it could not logically be limited to patented goods. *Any* successful tie would presumptively demonstrate market

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about the markets in which the patents competed, say nothing about the products with which the patented products compete or whether the estimated values reflected an ability to charge supra-competitive prices as opposed to the value of the patents notwithstanding the existence of a competitive market.

power because — in respondent's view — buyers' acceptance of the tie establishes the absence of reasonable substitutes for the tying product. Respondent's "success equals market power" argument does not depend on the presence of a patent; the market power element could be presumed for every successful tie. The Court should reject respondent's invitation to read the market power requirement out of tying jurisprudence.

Third, respondent's argument evidences considerable naiveté about the litigation process, because it fails to take account of the litigation-stimulating effects of procedural rules. If a plaintiff gained the benefit of a market power presumption whenever some aspect of the tying product is patented, plaintiffs would seek out tying products that meet that easy test. Because a plaintiff need not prove that the existence of the patent is the reason that the tie succeeded, the coincidental presence of a patent — perhaps on an unimportant aspect of the tying product — would be a sufficient reason to file a lawsuit and gain the benefit of the presumption.

Tying claims frequently are filed by competitors, as in this case. The ability to impose the burdens of litigation — including the costs attendant to disproving the existence of market power — will likely provoke a wave of abusive lawsuits based on inconsequential patents on the tying product.

Finally, if patents that give rise to litigation convey market power, there is no reason why that principle should be restricted to tying cases. It also should apply to other patent-related antitrust claims in which proof of market power is required. Yet such a standard would be inconsistent with the courts' repeated conclusion in other contexts that a patent may be evidence of market

power but is not sufficient to establish that fact. Pet. Br. 23-24. The only logical course is to harmonize these conflicting standards by abandoning the unjustified presumption in the tying context.

b. Respondent also claims that the presumption is justified because "most patent tying arrangements are in the form of requirement ties," which are "typically used for 'metering,'" — "mak[ing] the price charged vary with usage" — and which "generally cannot be imposed absent market power." Br. 26-27.

Respondent is simply wrong in presuming that the presence of price discrimination, such as supposed metering, is "strong evidence of market power." Br. 27; see also Nalebuff Br. 22-24. Numerous scholars have concluded that price discrimination occurs in many competitive industries. See, *e.g.* W. Baumol & D. Swanson, *The New Economy and Ubiquitous Competitive Price Discrimination: Identifying Defensible Criteria of Market Power*, 70 Antitrust L.J. 661, 666 (2003) ("evidence of [discriminatory pricing] practices by itself is not enough to demonstrate market power, and in some cases may even establish a presumption of its absence"); B. Klein & J. Wiley, *Competitive Price Discrimination as an Antitrust Justification for Intellectual Property Refusals to Deal*, 70 Antitrust L.J. 599, 602 (2003) (firms that price discriminate "do not necessarily possess any antitrust market power at all * * *"); T. Muris, *Improving the Economic Foundations of Competition Policy* (January 15, 2003), *available at* http://www.ftc.gov/speeches/muris/improveconfoundatio.htm ("Most real world markets, even those for relatively 'homogeneous' products and a market structure inconsistent with significant market power, exhibit significant price varia-

tion. These price differences do not prove that the firms have market power."); E. Elhauge, *Why Above-Cost Price Cuts To Drive Out Entrants Are Not Predatory — And the Implications for Defining Costs and Market Power*, 112 Yale L.J. 681, 733 (2003).[6] This conclusion is particularly true with respect to intellectual property. See, *e.g.*, 2A Areeda & Hovenkamp, *supra*, ¶ 517c2, at 134 (in "intellectual property licensing, * * * price discrimination is ubiquitous and seldom indicates significant market power").

Moreover, requirement ties are not just used to meter; they can serve quality control purposes as well. See, *e.g.*, *Mozart Co. v. Mercedes-Benz of N. Am., Inc.*, 833 F.2d 1342 (9th Cir.1987) (accepting quality control defense for requirement tie), *cert. denied*, 488 U.S. 870 (1988); B. Klein, *Market Power in Franchise Cases in the Wake of* Kodak*: Applying Post-Contract Hold-Up Analysis To Vertical Relationships*, 67 Antitrust L.J. 283, 305-11 (1999) ("requirements contracts [can be] used to control quality" and may have lower enforcement costs than other methods of protecting product

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[6] The underlying theory has been explained as follows:

> [W]hen courts speak of market power, they typically mean the ability to affect market-wide price, not merely one's own price. * * * Evidence of price discrimination — which shows only that a firm is able to set its own price above marginal costs — cannot demonstrate that a firm has the ability to affect market-wide prices and output.

J. Cooper et al., *Does Price Discrimination Intensify Competition? Implications for Antitrust*, 72 Antitrust L.J. 327, 358 (2005).

quality). The evidence in the record supports that justification here.[7]

Finally, "metering" raises serious antitrust concerns only where the defendant has significant market power. See, *e.g.*, 9, 10 Areeda & Hovenkamp, *supra*, ¶¶ 1711b4, 1711c, 1763a.[8] That is a compelling reason to require an *affirmative* showing that the defendant has significant market power in the tying product market before the tie is deemed *per se* illegal.[9]

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[7] Pet. Br. 30 n.8; see also A1291 (notes of respondent's sales person indicating that "[Independent Ink's] ink ran the same length of time [as ink from Marsh (a Trident OEM)] in side by side test, but was not as dark and did not go through the heads as well"). In any event, the market for ink is not limited to Trident and Independent Ink; the need to control quality arises due to inferior attributes in other inks as well.

[8] The prevailing view is that metering is usually procompetitive. See, *e.g.*, *id.*, ¶ 1711a3, at 102 ("[The] 'metering' function of price discrimination is likely to expand production and use of the tying product and thereby to improve resource allocation. This benefit, together with the benefit to the low-price customers, offsets the possible loss of consumer surplus to the high-price customer."); U.S. Br. 30; ABA Br. 10.

[9] Professors Nalebuff, Ayres and Sullivan concede that perfect price discrimination "can expand output and improve efficiency in some cases" but claim that "imperfect price discrimination has not been demonstrated to be efficient in the marketplace." Nalebuff Br. 18-22. But "[e]ven imperfect price discrimination * * * will generally have socially desirable results." J. G. Sidak, *Debunking Predatory Innovation*, 83 Colum. L. Rev. 1121, 1133 (1983). It clearly is not so "'plainly anticompetitive' and very likely without 'redeeming virtue'" as to justify *per se* condemnation. *Broadcast Music,*

2. The Presumption Is Unfair.

Respondent next defends the presumption on the ground that patent tying defendants are better positioned to disprove the existence of market power because they are likely to be wealthier (Br. 30) and can more easily adduce evidence regarding competitors (*id.* at 31).

First, none of the arguments advanced by respondent is unique to patent tying cases. They apply equally to all tying cases; indeed, to most antitrust cases. Yet this Court indicated in *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965), that "the exclusionary power of the illegal patent claim in terms of the relevant market for the product involved" is "a matter of proof" for claims under Section 2 of the Sherman Act. *Id.* at 177-78; see also *Medimmune, Inc. v. Genentech, Inc.*, 2005 WL 2649293, at *5 (Fed. Cir. Oct. 18, 2005) (no presumption of market power in Section 1 case not involving tying). Respondent never explains why patent-owning tying defendants are likely to have greater relative wealth or knowledge of the relevant product market than patent-owning defendants in

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Inc. v. Columbia Broad., Sys., Inc., 441 U.S. 1, 9 (1979). Yet that would be the practical effect of respondent's approach.

Similarly without merit is their contention (at 24-27) that tying can be prohibited because direct metering is "easier." "In [certain] patent situations, * * * the only practical way to measure the patent's use may be a 'tie' requiring licensees to buy an unpatented product from the patentee (or its designee) or to base royalties on output of an unpatented product." 10 Areeda & Hovenkamp, *supra*, ¶ 1763b, at 393. In other situations, direct metering will be more inefficient than ties. See *id.* ¶ 1763a, at 391; Sidak, *supra*, at 1132.

these other contexts, and there is no basis for believing that such a difference exists.

Second, it is not necessarily true that defendants are any better positioned to adduce evidence of competing substitutes than are plaintiffs. Indeed, the Georgetown study cited by respondent reveals that a vast majority of tying and exclusive dealing claims (which were grouped together) are initiated by competitors or dealers. See S. Salop & L. White, "Private Antitrust Litigation: An Introduction and Framework," *in Private Antitrust Litigation*, at 9 (1988). There is no reason to suspect that these plaintiffs' knowledge of the relevant market or competing products is inferior to the information possessed by tying defendants.

Moreover, respondent's claim that the burden of proving market power is too heavy is undercut considerably by its own assertion that even without a presumption it has carried that burden here. Br. 45-48. Indeed, it is sharply inconsistent with this Court's decision in *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451 (1992), where the plaintiff did not rely on the market power presumption yet still was able to defeat summary judgment.

Third, respondent ignores the fact that victorious plaintiffs often receive attorneys' fees and costs as well as treble damages. See 15 U.S.C. § 15(a). This and other procedural devices such as class actions are the measures Congress provided to encourage antitrust litigation and to cover litigation expenses. See *Alyeska Pipeline Serv. Co. v. Wilderness Soc'y*, 421 U.S. 240, 263 (1975). Defendants, of course, are not reimbursed, even when they defeat nonmeritorious claims.

Finally, respondent ignores the presumption's unfairness to patent holders. Though respondent recognizes that the market power requirement helps screen out harmless ties (Br. 37), it argues that the cost of false positives will be low because the other prerequisites to the *per se* rule, plus the ability to present efficiencies as an affirmative defense, will adequately compensate for a diluted market power requirement. *Id.* at 36-39.[10] That is wrong.

Proof of market power is essential to demonstrate that a tie will have anticompetitive effects. Pet. Br. 20-22.[11] Neither the other elements of *per se* liability nor the opportunity to present efficiencies as an affirmative defense adequately compensates for the absence of an effective market power screen for two reasons. To begin with, that approach would create a significant risk that the tying defendant will be unable to explain its conduct in a manner persuasive to the jury, and thus the tie will be condemned *per se* despite having no possible adverse effect on competition. See Verizon Br. 12-16; cf. 10 Areeda & Hovenkamp, *supra*, at ¶ 1760e, at 352-56 (discussing problems that arise through forcing a defendant to present justifications as an affirmative defense).

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[10] Respondent (at 30-32) understates the difficulty in rebutting the presumption. See Pet. Br. 32-34.

[11] All the theories cited by respondent (at 43 & n.18) require the presence of market power to produce anticompetitive effects. See, *e.g.*, D. Carlton & M. Waldman, *The Strategic Use of Tying to Preserve and Create Market Power in Evolving Industries*, 33 Rand. J. Econ. 194, 194 (2002); Verizon Br. 18-19.

In addition, the presumption risks prolonging trials even where the efficiency justifications are clear because of the lenient standards of review applied at the dismissal and summary judgment stages. See, *e.g.*, Verizon Br. 25. That, in turn, will increase the risk that meritless lawsuits will be filed in order to extract pretrial settlements, and may deter substantial amounts of procompetitive conduct. Pet. Br. 27-34; U.S. Br. 27-29.

Respondent calls these theories "sheer speculation," claiming that "[i]f the presumption caused all these bad consequences, Trident should easily be able to offer numerous concrete examples from the past fifty years." Br. 36. This facile response overlooks two critical phenomena. First, it disregards the extent to which the presumption has been undermined by the lower courts and the federal enforcement agencies over the years. Pet. Br. 21-24; U.S. Br. 13-14. Reinvigoration of the presumption by this Court would stimulate an avalanche of these claims.

Second, overdeterrence costs typically are not visible: a company's decision not to sell products in a package (and thereby increase consumer choice) is not public and does not create litigation. This lack of visibility of the effects of overdeterrence, however, has not prevented this Court from recognizing the substantiality of this concern in numerous contexts. Pet. Br. 31-32.

3. The Presumption Harms Judicial Efficiency.

Respondent claims that the presumption aids administrative efficiency. Br. 33-34. But, as the Solicitor General points out (U.S. Br. 27), these cases — as here — typically involve multiple antitrust claims, and those

other claims will have to be resolved under conventional antitrust principles. In addition, the presumption will encourage the filing of meritless lawsuits by plaintiffs seeking to extort settlements and will unnecessarily prolong cases where the absence of market power is clear. See Pet. Br. 34.

Moreover, respondent ignores the fact that upholding the presumption will spawn years of litigation about the presumption's contours. The briefs in this case illustrate the problem. Respondent first asserted that the presumption was irrebuttable (Br. in Opp. 24 n.7), but now states that it may be rebutted (Br. 32). Other amici acknowledge that "application of the *Loew's* presumption is not appropriate in all patent tying cases," yet nevertheless suggest a "'patent-plus approach'" analogous to a "quick look" standard. District of Columbia Br. 5, 6; see also Scherer Br. 10 (suggesting a "relaxed evidentiary burden" at first); Pet. 24 (discussing lower court decisions). Litigation thus would be avoided if the Court simply were to apply the same market power analysis in patent tying claims that applies to every other antitrust claim in which the issue arises.

E. Respondent Has Not Proven Market Power.

Finally, respondent contends that, even if the presumption is overturned, the judgment below nonetheless should be affirmed because respondent provided direct evidence of market power in the form of higher ink prices, customer survey responses that Trident's policies were "too restrictive," statements by Trident that it "dominates the inkjet printhead market," and evidence indicating that Trident sold between 80 to 100% of the piezoelectric printheads used in printers. Br. 45-48.

These assertions are directly contrary to the district court's findings, affirmed by the Federal Circuit, that respondent's Section 2 claims failed because respondent "proffer[ed] no evidence that would establish Defendants' market power in the as yet undefined market for the tying product" (Pet. App. 18a, 49a). As the court below explained, respondent did not carry its burden of proving the relevant market — making "only the conclusory allegation of a geographic market without supporting economic evidence" — let alone the existence of market power in such a market. Pet. App. 18a.

Moreover, respondent's principal argument — that end-users pay more for Trident ink than Independent Ink ink — ignores the fact that these sales were not covered by the alleged tie: *the licensing agreement challenged by respondent did not bind end-users to purchase Trident ink; it applied only to ink purchases by OEMs.* J.A. 94a-96a. And the price differential cited by respondent results from mark-ups imposed by OEMs and distributors. See J.A. 277a (in 1994, Trident's price to OEMs was $79 to $110 a bottle); J.A. 290a-91a (in 2000, Trident's average price to OEMs was $85).

Furthermore, a customer survey revealing dissatisfaction (J.A. 406a-10a) is not evidence of significant market power. Cf. *Jefferson Parish*, 466 U.S. at 26 (expressed "preference of persons residing in Jefferson Parish to go to * * * the closest hospital [instead of East Jefferson, where they had to go] * * * is not necessarily probative of significant market power").

Nor are statements of market "domina[nce]" of any import to the market power inquiry. Cf. *Valley Liquors, Inc. v. Renfield Importers, Ltd.*, 822 F.2d 656, 668 (7th Cir. 1987) ("employee statements * * * are insufficient

to raise a genuine issue of material fact regarding [the defendant's] market power"; "market power * * * and 'its measurement requires sophisticated econometric analysis'") (citation omitted).

Last, the evidence cited by respondent does not indicate that Trident had an 80 to 100 percent market share: Among other deficiencies, this statistic ignores the nascent competition from other piezoelectric printhead manufacturers and competition from pre-printed labels, which, as the district court noted, "may even have advantages over [piezoelectic] printers in terms of quality and reliability." Pet. App. 22a, 36a. In short, judgment is warranted for petitioners, not for respondent.

For the forgoing reasons, and those stated in our opening brief, the judgment of the court of appeals should be reversed, reinstating the district court's grant of summary judgment in favor of petitioners on the Section 1 theory.

Respectfully submitted.

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Syllabus

NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States* v. *Detroit Timber & Lumber Co.*, 200 U. S. 321, 337.

SUPREME COURT OF THE UNITED STATES

Syllabus

ILLINOIS TOOL WORKS INC. ET AL. *v.* INDEPENDENT INK, INC.

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

No. 04–1329. Argued November 29, 2005—Decided March 1, 2006

Petitioners manufacture and market printing systems that include a patented printhead and ink container and unpatented ink, which they sell to original equipment manufacturers who agree that they will purchase ink exclusively from petitioners and that neither they nor their customers will refill the patented containers with ink of any kind. Respondent developed ink with the same chemical composition as petitioners' ink. After petitioner Trident's infringement action was dismissed, respondent filed suit seeking a judgment of noninfringement and invalidity of Trident's patents on the ground that petitioners are engaged in illegal "tying" and monopolization in violation of §§1 and 2 of the Sherman Act. Granting petitioners summary judgment, the District Court rejected respondent's argument that petitioners necessarily have market power as a matter of law by virtue of the patent on their printhead system, thereby rendering the tying arrangements *per se* violations of the antitrust laws. After carefully reviewing this Court's tying-arrangements decisions, the Federal Circuit reversed as to the §1 claim, concluding that it had to follow this Court's precedents until overruled by this Court.

Held: Because a patent does not necessarily confer market power upon the patentee, in all cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product. Pp. 3–17.

(a) Over the years, this Court's strong disapproval of tying arrangements has substantially diminished, as the Court has moved from relying on assumptions to requiring a showing of market power in the tying product. The assumption in earlier decisions that such "arrangements serve hardly any purpose beyond the suppression of

Syllabus

competition." *Standard Oil Co. of Cal.* v. *United States*, 337 U. S. 293, 305–306, was rejected in *United States Steel Corp.* v. *Fortner Enterprises, Inc.*, 429 U. S. 610, 622 *(Fortner II)*, and again in *Jefferson Parish Hospital Dist. No. 2* v. *Hyde*, 466 U. S. 2, both of which involved unpatented tying products. Nothing in *Jefferson Parish* suggested a rebuttable presumption of market power applicable to tying arrangements involving a patent on the tying good. Pp. 3–8.

(b) The presumption that a patent confers market power arose outside the antitrust context as part of the patent misuse doctrine, and migrated to antitrust law in *International Salt Co.* v. *United States*, 332 U. S. 392. See also *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488; *United States* v. *Loew's Inc.*, 371 U. S. 38. Pp. 8–10.

(c) When Congress codified the patent laws for the first time, it initiated the untwining of the patent misuse doctrine and antitrust jurisprudence. At the same time that this Court's antitrust jurisprudence continued to rely on the assumption that tying arrangements generally serve no legitimate business purpose, Congress began chipping away at that assumption in the patent misuse context from whence it came. Then, four years after *Jefferson Parish* repeated the presumption that patents confer market power, Congress amended the Patent Code to eliminate it in the patent misuse context. While that amendment does not expressly refer to the antitrust laws, it invites reappraisal of *International Salt*'s *per se* rule. After considering the congressional judgment reflected in the amendment, this Court concludes that tying arrangements involving patented products should be evaluated under the standards of cases like *Fortner II* and *Jefferson Parish* rather than the *per se* rule in *Morton Salt* and *Loew's*. Any conclusion that an arrangement is unlawful must be supported by proof of power in the relevant market rather than by a mere presumption thereof. Pp. 11–13.

(d) Respondent's alternatives to retention of the *per se* rule—that the Court endorse a rebuttable presumption that patentees possess market power when they condition the purchase of the patented product on an agreement to buy unpatented goods exclusively from the patentee, or differentiate between tying arrangements involving requirements ties and other types of tying arrangements—are rejected. Pp. 14–16.

(e) Because respondent reasonably relied on this Court's prior opinions in moving for summary judgment without offering evidence of the relevant market or proving petitioners' power within that market, respondent should be given a fair opportunity to develop and introduce evidence on that issue, as well as other relevant issues, when the case returns to the District Court. P. 17.

396 F. 3d 1342, vacated and remanded.

Syllabus

STEVENS, J., delivered the opinion of the Court, in which all other Members joined, except ALITO, J., who took no part in the consideration or decision of the case.

NOTICE: This opinion is subject to formal revision before publication in the preliminary print of the United States Reports. Readers are requested to notify the Reporter of Decisions, Supreme Court of the United States, Washington, D. C. 20543, of any typographical or other formal errors, in order that corrections may be made before the preliminary print goes to press.

SUPREME COURT OF THE UNITED STATES

No. 04–1329

ILLINOIS TOOL WORKS INC., ET AL., PETITIONERS *v.* INDEPENDENT INK, INC.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

[March 1, 2006]

JUSTICE STEVENS delivered the opinion of the Court.

In *Jefferson Parish Hospital Dist. No. 2* v. *Hyde*, 466 U. S. 2 (1984), we repeated the well-settled proposition that "if the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." *Id.*, at 16. This presumption of market power, applicable in the antitrust context when a seller conditions its sale of a patented product (the "tying" product) on the purchase of a second product (the "tied" product), has its foundation in the judicially created patent misuse doctrine. See *United States* v. *Loew's Inc.*, 371 U. S. 38, 46 (1962). In 1988, Congress substantially undermined that foundation, amending the Patent Act to eliminate the market power presumption in patent misuse cases. See 102 Stat. 4674, codified at 35 U. S. C. §271(d). The question presented to us today is whether the presumption of market power in a patented product should survive as a matter of antitrust law despite its demise in patent law. We conclude that the mere fact that a tying product is patented does not support such a presumption.

I

Petitioners, Trident, Inc., and its parent, Illinois Tool Works Inc., manufacture and market printing systems that include three relevant components: (1) a patented piezoelectric impulse ink jet printhead; (2) a patented ink container, consisting of a bottle and valved cap, which attaches to the printhead; and (3) specially designed, but unpatented, ink. Petitioners sell their systems to original equipment manufacturers (OEMs) who are licensed to incorporate the printheads and containers into printers that are in turn sold to companies for use in printing barcodes on cartons and packaging materials. The OEMs agree that they will purchase their ink exclusively from petitioners, and that neither they nor their customers will refill the patented containers with ink of any kind.

Respondent, Independent Ink, Inc., has developed an ink with the same chemical composition as the ink sold by petitioners. After an infringement action brought by Trident against Independent was dismissed for lack of personal jurisdiction, Independent filed suit against Trident seeking a judgment of noninfringement and invalidity of Trident's patents.[1] In an amended complaint, it alleged that petitioners are engaged in illegal tying and monopolization in violation of §§1 and 2 of the Sherman Act. 15 U. S. C. §§1, 2.

After discovery, the District Court granted petitioners' motion for summary judgment on the Sherman Act claims. *Independent Ink, Inc.* v. *Trident, Inc.*, 210 F. Supp. 2d 1155, 1177 (CD Cal. 2002). It rejected respondent's submission that petitioners "necessarily have market power in the market for the tying product as a matter of law solely by virtue of the patent on their printhead system, thereby rendering [the] tying arrangements *per se* viola-

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[1] Illinois Tool did not acquire Trident until February 19, 1999, approximately six months after this action commenced.

tions of the antitrust laws." *Id.*, at 1159. Finding that respondent had submitted no affirmative evidence defining the relevant market or establishing petitioners' power within it, the court concluded that respondent could not prevail on either antitrust claim. *Id.*, at 1167, 1173, 1177. The parties settled their other claims, and respondent appealed.

After a careful review of the "long history of Supreme Court consideration of the legality of tying arrangements," 396 F. 3d 1342, 1346 (2005), the Court of Appeals for the Federal Circuit reversed the District Court's decision as to respondent's §1 claim, *id.*, at 1354. Placing special reliance on our decisions in *International Salt Co.* v. *United States*, 332 U. S. 392 (1947), and *Loew's*, 371 U. S. 38, as well as our *Jefferson Parish* dictum, and after taking note of the academic criticism of those cases, it concluded that the "fundamental error" in petitioners' submission was its disregard of "the duty of a court of appeals to follow the precedents of the Supreme Court until the Court itself chooses to expressly overrule them." 396 F. 3d, at 1351. We granted certiorari to undertake a fresh examination of the history of both the judicial and legislative appraisals of tying arrangements. 545 U. S. __ (2005). Our review is informed by extensive scholarly comment and a change in position by the administrative agencies charged with enforcement of the antitrust laws.

II

American courts first encountered tying arrangements in the course of patent infringement litigation. See, *e.g.*, *Heaton-Peninsular Button-Fastening Co.* v. *Eureka Specialty Co.*, 77 F. 288 (CA6 1896). Such a case came before this Court in *Henry* v. *A. B. Dick Co.*, 224 U. S. 1 (1912), in which, as in the case we decide today, unpatented ink was the product that was "tied" to the use of a patented product through the use of a licensing agreement. Without com-

menting on the tying arrangement, the Court held that use of a competitor's ink in violation of a condition of the agreement—that the rotary mimeograph "'may be used only with the stencil, paper, ink and other supplies made by A. B. Dick Co.'"—constituted infringement of the patent on the machine. *Id.*, at 25–26. Chief Justice White dissented, explaining his disagreement with the Court's approval of a practice that he regarded as an "attempt to increase the scope of the monopoly granted by a patent . . . which tend[s] to increase monopoly and to burden the public in the exercise of their common rights." *Id.*, at 70. Two years later, Congress endorsed Chief Justice White's disapproval of tying arrangements, enacting §3 of the Clayton Act. See 38 Stat. 731 (applying to "patented or unpatented" products); see also *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502, 517–518 (1917) (explaining that, in light of §3 of the Clayton Act, *A. B. Dick* "must be regarded as overruled"). And in this Court's subsequent cases reviewing the legality of tying arrangements we, too, embraced Chief Justice White's disapproval of those arrangements. See, *e.g.*, *Standard Oil Co. of Cal.* v. *United States*, 337 U. S. 293, 305–306 (1949); *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661, 664–665 (1944).

In the years since *A. B. Dick*, four different rules of law have supported challenges to tying arrangements. They have been condemned as improper extensions of the patent monopoly under the patent misuse doctrine, as unfair methods of competition under §5 of the Federal Trade Commission Act, 15 U. S. C. §45, as contracts tending to create a monopoly under §3 of the Clayton Act, 15 U. S. C. §13a, and as contracts in restraint of trade under §1 of the Sherman Act.[2] In all of those instances, the justification

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[2]See, *e.g.*, *Jefferson Parish Hospital Dist. No. 2* v. *Hyde*, 466 U. S. 2, 9 (1984) (Sherman Act); *Times-Picayune Publishing Co.* v. *United States*, 345 U. S. 594, 609 (1953) (Federal Trade Commission Act); *Interna-*

for the challenge rested on either an assumption or a showing that the defendant's position of power in the market for the tying product was being used to restrain competition in the market for the tied product. As we explained in *Jefferson Parish*, 466 U. S., at 12, "[o]ur cases have concluded that the essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms."

Over the years, however, this Court's strong disapproval of tying arrangements has substantially diminished. Rather than relying on assumptions, in its more recent opinions the Court has required a showing of market power in the tying product. Our early opinions consistently assumed that "[t]ying arrangements serve hardly any purpose beyond the suppression of competition." *Standard Oil Co.*, 337 U. S., at 305–306. In 1962, in *Loew's*, 371 U. S., at 47–48, the Court relied on this assumption despite evidence of significant competition in the market for the tying product. And as recently as 1969, Justice Black, writing for the majority, relied on the assumption as support for the proposition "that, at least when certain prerequisites are met, arrangements of this kind are illegal in and of themselves, and no specific showing of unreasonable competitive effect is required." *Fortner Enterprises, Inc.* v. *United States Steel Corp.*, 394 U. S. 495, 498–499 *(Fortner I)*. Explaining the Court's decision to allow the suit to proceed to trial, he stated that "decisions rejecting the need for proof of truly dominant power over the tying product have

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tional Salt Co. v. *United States*, 332 U. S. 392, 395–396 (1947) (Clayton Act and Sherman Act); *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488, 494 (1942) (patent misuse); *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502, 516 (1917) (same).

all been based on a recognition that because tying arrangements generally serve no legitimate business purpose that cannot be achieved in some less restrictive way, the presence of any appreciable restraint on competition provides a sufficient reason for invalidating the tie." *Id.*, at 503.

Reflecting a changing view of tying arrangements, four Justices dissented in *Fortner I*, arguing that the challenged "tie"—the extension of a $2 million line of credit on condition that the borrower purchase prefabricated houses from the defendant—might well have served a legitimate purpose. *Id.*, at 510 (opinion of White, J.); *id.*, at 520 (opinion of Fortas, J.). In his opinion, Justice White noted that promotional tie-ins may provide "uniquely advantageous deals" to purchasers. *Id.*, at 519. And Justice Fortas concluded that the arrangement was best characterized as "a sale of a single product with the incidental provision of financing." *Id.*, at 522.

The dissenters' view that tying arrangements may well be procompetitive ultimately prevailed; indeed, it did so in the very same lawsuit. After the Court remanded the suit in *Fortner I*, a bench trial resulted in judgment for the plaintiff, and the case eventually made its way back to this Court. Upon return, we unanimously held that the plaintiff's failure of proof on the issue of market power was fatal to its case—the plaintiff had proved "nothing more than a willingness to provide cheap financing in order to sell expensive houses." *United States Steel Corp.* v. *Fortner Enterprises, Inc.*, 429 U. S. 610, 622 (1977) *(Fortner II)*.

The assumption that "[t]ying arrangements serve hardly any purpose beyond the suppression of competition," rejected in *Fortner II*, has not been endorsed in any opinion since. Instead, it was again rejected just seven years later in *Jefferson Parish*, where, as in *Fortner II*, we unanimously reversed a Court of Appeals judgment holding that an alleged tying arrangement constituted a *per se*

rangements involving a patent on the tying good. See *infra*, at 14; cf. 396 F. 3d, at 1352. Instead, it described the rule that a contract to sell a patented product on condition that the purchaser buy unpatented goods exclusively from the patentee is a *per se* violation of §1 of the Sherman Act.

Justice O'Connor wrote separately in *Jefferson Parish*, concurring in the judgment on the ground that the case did not involve a true tying arrangement because, in her view, surgical services and anesthesia were not separate products. 466 U. S., at 43. In her opinion, she questioned not only the propriety of treating any tying arrangement as a *per se* violation of the Sherman Act, *id.*, at 35, but also the validity of the presumption that a patent always gives the patentee significant market power, observing that the presumption was actually a product of our patent misuse cases rather than our antitrust jurisprudence, *id.*, at 37–38, n. 7. It is that presumption, a vestige of the Court's historical distrust of tying arrangements, that we address squarely today.

III

Justice O'Connor was, of course, correct in her assertion that the presumption that a patent confers market power arose outside the antitrust context as part of the patent misuse doctrine. That doctrine had its origins in *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502 (1917), which found no support in the patent laws for the proposition that a patentee may "prescribe by notice attached to a patented machine the conditions of its use and the supplies which must be used in the operation of it, under pain of infringement of the patent," *id.*, at 509. Although *Motion Picture Patents Co.* simply narrowed the scope of possible patent infringement claims, it formed the basis for the Court's subsequent decisions creating a patent misuse defense to infringement claims when a patentee uses its patent "as the effective means of restraining

violation of §1 of the Sherman Act. 466 U. S., at 5. Like the product at issue in the *Fortner* cases, the tying product in *Jefferson Parish*—hospital services—was unpatented, and our holding again rested on the conclusion that the plaintiff had failed to prove sufficient power in the tying product market to restrain competition in the market for the tied product—services of anesthesiologists. 466 U. S., at 28–29.

In rejecting the application of a *per se* rule that all tying arrangements constitute antitrust violations, we explained:

> "[W]e have condemned tying arrangements when the seller has some special ability—usually called 'market power'—to force a purchaser to do something that he would not do in a competitive market. . . .
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> . . . . .
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> "*Per se* condemnation—condemnation without inquiry into actual market conditions—is only appropriate if the existence of forcing is probable. Thus, application of the *per se* rule focuses on the probability of anticompetitive consequences. . . .
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> "For example, if the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power. *United States* v. *Loew's Inc.*, 371 U. S., at 45–47. Any effort to enlarge the scope of the patent monopoly by using the market power it confers to restrain competition in the market for a second product will undermine competition on the merits in that second market. Thus, the sale or lease of a patented item on condition that the buyer make all his purchases of a separate tied product from the patentee is unlawful." *Id.*, at 13–16 (footnote omitted).

Notably, nothing in our opinion suggested a rebuttable presumption of market power applicable to tying ar-

competition with its sale of an unpatented article." *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488, 490 (1942); see also, *e.g.*, *Carbice Corp. of America* v. *American Patents Development Corp.*, 283 U. S. 27, 31 (1931).

Without any analysis of actual market conditions, these patent misuse decisions assumed that, by tying the purchase of unpatented goods to the sale of the patented good, the patentee was "restraining competition," *Morton Salt*, 314 U. S., at 490, or "secur[ing] a limited monopoly of an unpatented material," *Mercoid*, 320 U. S., at 664; see also *Carbice*, 283 U. S., at 31–32. In other words, these decisions presumed "[t]he requisite economic power" over the tying product such that the patentee could "extend [its] economic control to unpatented products." *Loew's*, 371 U. S., at 45–46.

The presumption that a patent confers market power migrated from patent law to antitrust law in *International Salt Co.* v. *United States*, 332 U. S. 392 (1947). In that case, we affirmed a District Court decision holding that leases of patented machines requiring the lessees to use the defendant's unpatented salt products violated §1 of the Sherman Act and §3 of the Clayton Act as a matter of law. *Id.*, at 396. Although the Court's opinion does not discuss market power or the patent misuse doctrine, it assumes that "[t]he volume of business affected by these contracts cannot be said to be insignificant or insubstantial and the tendency of the arrangement to accomplishment of monopoly seems obvious." *Ibid.*

The assumption that tying contracts "ten[d] . . . to accomplishment of monopoly" can be traced to the Government's brief in *International Salt*, which relied heavily on our earlier patent misuse decision in *Morton Salt*. The Government described *Morton Salt* as "present[ing] a factual situation almost identical with the instant case," and it asserted that "although the Court in that case did not find it necessary to decide whether the antitrust laws

were violated, its language, its reasoning, and its citations indicate that the policy underlying the decision was the same as that of the Sherman Act." Brief for United States in *International Salt Co.* v. *United States*, O. T. 1947, No. 46, p. 19 (United States Brief). Building on its assertion that *International Salt* was logically indistinguishable from *Morton Salt*, the Government argued that this Court should place tying arrangements involving patented products in the category of *per se* violations of the Sherman Act. United States Brief 26–33.

Our opinion in *International Salt* clearly shows that we accepted the Government's invitation to import the presumption of market power in a patented product into our antitrust jurisprudence. While we cited *Morton Salt* only for the narrower proposition that the defendant's patents did not confer any right to restrain competition in unpatented salt or afford the defendant any immunity from the antitrust laws, *International Salt*, 332 U. S., at 395–396, given the fact that the defendant was selling its unpatented salt at competitive prices, *id.*, at 396–397, the rule adopted in *International Salt* necessarily accepted the Government's submission that the earlier patent misuse cases supported the broader proposition "that this type of restraint is unlawful on its face under the Sherman Act," United States Brief 12.

Indeed, later in the same Term we cited *International Salt* for the proposition that the license of "a patented device on condition that unpatented materials be employed in conjunction with the patented device" is an example of a restraint that is "illegal *per se*." *United States* v. *Columbia Steel Co.*, 334 U. S. 495, 522–523, and n. 22 (1948). And in subsequent cases we have repeatedly grounded the presumption of market power over a patented device in *International Salt*. See, *e.g.*, *Loew's*, 371 U. S., at 45–46; *Times-Picayune Publishing Co.* v. *United States*, 345 U. S. 594, 608 (1953); *Standard Oil Co.*, 337 U. S., at 304.

IV

Although the patent misuse doctrine and our antitrust jurisprudence became intertwined in *International Salt*, subsequent events initiated their untwining. This process has ultimately led to today's reexamination of the presumption of *per se* illegality of a tying arrangement involving a patented product, the first case since 1947 in which we have granted review to consider the presumption's continuing validity.

Three years before we decided *International Salt*, this Court had expanded the scope of the patent misuse doctrine to include not only supplies or materials used by a patented device, but also tying arrangements involving a combination patent and "unpatented material or [a] device [that] is itself an integral part of the structure embodying the patent." *Mercoid*, 320 U. S., at 665; see also *Dawson Chemical Co.* v. *Rohm & Haas Co.*, 448 U. S. 176, 188–198 (1980) (describing in detail *Mercoid* and the cases leading up to it). In reaching this conclusion, the Court explained that it could see "no difference in principle" between cases involving elements essential to the inventive character of the patent and elements peripheral to it; both, in the Court's view, were attempts to "expan[d] the patent beyond the legitimate scope of its monopoly." *Mercoid*, 320 U. S., at 665.

Shortly thereafter, Congress codified the patent laws for the first time. See 66 Stat. 792, codified as 35 U. S. C. §1 *et seq.* (2000 ed. and Supp. III). At least partly in response to our *Mercoid* decision, Congress included a provision in its codification that excluded some conduct, such as a tying arrangement involving the sale of a patented product tied to an "essential" or "nonstaple" product that has no use except as part of the patented product or method, from the scope of the patent misuse doctrine. §271(d); see also *Dawson*, 448 U. S., at 214. Thus, at the same time that our antitrust jurisprudence continued to rely on the

assumption that "tying arrangements generally serve no legitimate business purpose," *Fortner I*, 394 U. S., at 503, Congress began chipping away at the assumption in the patent misuse context from whence it came.

It is Congress' most recent narrowing of the patent misuse defense, however, that is directly relevant to this case. Four years after our decision in *Jefferson Parish* repeated the patent–equals–market–power presumption, 466 U. S., at 16, Congress amended the Patent Code to eliminate that presumption in the patent misuse context, 102 Stat. 4674. The relevant provision reads:

> "(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: . . . (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, *unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.*" 35 U. S. C. §271(d)(5) (emphasis added).

The italicized clause makes it clear that Congress did not intend the mere existence of a patent to constitute the requisite "market power." Indeed, fairly read, it provides that without proof that Trident had market power in the relevant market, its conduct at issue in this case was neither "misuse" nor an "illegal extension of the patent right."

While the 1988 amendment does not expressly refer to the antitrust laws, it certainly invites a reappraisal of the *per se* rule announced in *International Salt*.[3] A rule deny-

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[3] While our opinions have made clear that such an invitation is not

ing a patentee the right to enjoin an infringer is significantly less severe than a rule that makes the conduct at issue a federal crime punishable by up to 10 years in prison. See 15 U. S. C. §1. It would be absurd to assume that Congress intended to provide that the use of a patent that merited punishment as a felony would not constitute "misuse." Moreover, given the fact that the patent misuse doctrine provided the basis for the market power presumption, it would be anomalous to preserve the presumption in antitrust after Congress has eliminated its foundation. Cf. 10 P. Areeda, H. Hovenkamp, & E. Elhauge, Antitrust Law ¶1737c (2d ed. 2004) (hereinafter Areeda).

After considering the congressional judgment reflected in the 1988 amendment, we conclude that tying arrangements involving patented products should be evaluated under the standards applied in cases like *Fortner II* and *Jefferson Parish* rather than under the *per se* rule applied in *Morton Salt* and *Loew's*. While some such arrangements are still unlawful, such as those that are the product of a true monopoly or a marketwide conspiracy, see, *e.g.*, *United States* v. *Paramount Pictures, Inc.*, 334 U. S. 131, 145–146 (1948), that conclusion must be supported by proof of power in the relevant market rather than by a mere presumption thereof.[4]

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necessary with respect to cases arising under the Sherman Act, see *State Oil Co.* v. *Khan*, 522 U. S. 3, 20 (1997), it is certainly sufficient to warrant reevaluation of our precedent, *id.*, at 21 ("[T]his Court has reconsidered its decisions construing the Sherman Act when the theoretical underpinnings of those decisions are called into serious question").

[4]Our imposition of this requirement accords with the vast majority of academic literature on the subject. See, *e.g.*, 10 Areeda ¶1737a ("[T]here is no economic basis for inferring any amount of market power from the mere fact that the defendant holds a valid patent"); Burchfiel, Patent Misuse and Antitrust Reform: "Blessed be the Tie?" 4 Harv. J. L. & Tech. 1, 57, and n. 340 (noting that the market power presumption has been extensively criticized and citing sources); 1 H. Hovenkamp, M.

V

Rather than arguing that we should retain the rule of *per se* illegality, respondent contends that we should endorse a rebuttable presumption that patentees possess market power when they condition the purchase of the patented product on an agreement to buy unpatented goods exclusively from the patentee. Cf. *supra*, at 7–8. Respondent recognizes that a large number of valid patents have little, if any, commercial significance, but submits that those that are used to impose tying arrangements on unwilling purchasers likely do exert significant market power. Hence, in respondent's view, the presumption would have no impact on patents of only slight value and would be justified, subject to being rebutted by evidence offered by the patentee, in cases in which the patent has sufficient value to enable the patentee to insist on acceptance of the tie.

Respondent also offers a narrower alternative, suggesting that we differentiate between tying arrangements involving the simultaneous purchase of two products that are arguably two components of a single product—such as the provision of surgical services and anesthesiology in the same operation, *Jefferson Parish*, 466 U. S., at 43 (O'Connor, J., concurring in judgment), or the licensing of one copyrighted film on condition that the licensee take a package of several films in the same transaction, *Loew's*, 371 U. S. 38—and a tying arrangement involving the purchase of unpatented goods over a period of time, a so-called "requirements tie." See also Brief for Barry Nalebuff et al. as *Amici Curiae*. According to respondent, we should recognize a presumption of market power when

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Janis, & M. Lemley, IP and Antitrust §4.2a (2005 Supp.) ("[C]overage of one's product with an intellectual property right does not confer a monopoly"); W. Landes & R. Posner, The Economic Structure of Intellectual Property Law 374 (2003) (hereinafter Landes & Posner).

faced with the latter type of arrangements because they provide a means for charging large volume purchasers a higher royalty for use of the patent than small purchasers must pay, a form of discrimination that "is strong evidence of market power." Brief for Respondent 27; see generally *Jefferson Parish*, 466 U. S., at 15, n. 23 (discussing price discrimination of this sort and citing sources).

The opinion that imported the "patent equals market power" presumption into our antitrust jurisprudence, however, provides no support for respondent's proposed alternative. In *International Salt*, it was the existence of the patent on the tying product, rather than the use of a requirements tie, that led the Court to presume market power. 332 U. S., at 395 ("The appellant's patents confer a limited monopoly of the invention they reward"). Moreover, the requirements tie in that case did not involve any price discrimination between large volume and small volume purchasers or evidence of noncompetitive pricing. Instead, the leases at issue provided that if any competitor offered salt, the tied product, at a lower price, "the lessee should be free to buy in the open market, unless appellant would furnish the salt at an equal price." *Id.*, at 396.

As we have already noted, the vast majority of academic literature recognizes that a patent does not necessarily confer market power. See n. 4, *supra*. Similarly, while price discrimination may provide evidence of market power, particularly if buttressed by evidence that the patentee has charged an above-market price for the tied package, see, *e.g.*, 10 Areeda ¶1769c, it is generally recognized that it also occurs in fully competitive markets, see, *e.g.*, Baumol & Swanson, The New Economy and Ubiquitous Competitive Price Discrimination: Identifying Defensible Criteria of Market Power, 70 Antitrust L. J. 661, 666 (2003); 9 Areeda ¶1711; Landes & Posner 374–375. We are not persuaded that the combination of these two factors should give rise to a presumption of market power

when neither is sufficient to do so standing alone. Rather, the lesson to be learned from *International Salt* and the academic commentary is the same: Many tying arrangements, even those involving patents and requirements ties, are fully consistent with a free, competitive market. For this reason, we reject both respondent's proposed rebuttable presumption and their narrower alternative.

It is no doubt the virtual consensus among economists that has persuaded the enforcement agencies to reject the position that the Government took when it supported the *per se* rule that the Court adopted in the 1940's. See *supra*, at 8. In antitrust guidelines issued jointly by the Department of Justice and the Federal Trade Commission in 1995, the enforcement agencies stated that in the exercise of their prosecutorial discretion they "will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner." U. S. Dept. of Justice and FTC, Antitrust Guidelines for the Licensing of Intellectual Property §2.2 (Apr. 6, 1995), available at http://www.usdoj.gov/atr/public/guidelines/0558.pdf (as visited Feb. 24, 2006, and available in Clerk of Court's case file). While that choice is not binding on the Court, it would be unusual for the Judiciary to replace the normal rule of lenity that is applied in criminal cases with a rule of severity for a special category of antitrust cases.

Congress, the antitrust enforcement agencies, and most economists have all reached the conclusion that a patent does not necessarily confer market power upon the patentee. Today, we reach the same conclusion, and therefore hold that, in all cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product.

VI

In this case, respondent reasonably relied on our prior opinions in moving for summary judgment without offer-

ing evidence defining the relevant market or proving that petitioners possess power within it. When the case returns to the District Court, respondent should therefore be given a fair opportunity to develop and introduce evidence on that issue, as well as any other issues that are relevant to its remaining §1 claims. Accordingly, the judgment of the Court of Appeals is vacated, and the case is remanded for further proceedings consistent with this opinion.

It is so ordered.

JUSTICE ALITO took no part in the consideration or decision of this case.